

# Health Budget: FY 2021/22



## Abstract

This note provides a summary of recent public health budget expenditures, examines trends through time, discusses the major expenditure headings including the Covid-19 prevention and control programme and examines the sustainability of financing health expenditures including the risks of crowding out and under-funding. The data are primarily from Redbooks (Ministry of Finance, various years)

<sup>1</sup> This product has been financed by the European Union

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- Covid-19 control and prevention programme dominates the health budget with 40% allocation. Risks of Covid-19 control and prevention programme being underfunded exist if there are unexpected increases in costs, supply chain uncertainties or donor commitments fall below targets.
- Increased dependence on donor funding in last two years after a steady declining trend in donor share – driven mainly by the Covid-19 response as well as expansions in the Health Reform Programme and Integrated Health Infrastructure Development Programme – both of which are significantly reliant on donor funding. Raises a question about sustainability of health financing.

## Highlights

- Rising trend in Ministry of Health and Population budget – driven strongly by Covid-19 control and prevention programmes, especially in the last two years.
- However, health allocations considerably lower than the global average of 10% of Gross Domestic Product (GDP)<sup>1</sup>. Per capita health spending remains low. Prior to the Covid-19 pandemic it was about Nepalese Rupee (NPR) 1,880 per person. Since then, health allocations as well as per capita spending has more than doubled – due to the increased funding of the Covid-19 prevention and control programme.
- 74% of health expenditures are allocated to the central level. The data show an increase in allocations to the central level and an offsetting decreased allocation at local government (LG) level over the last two years.
- Central government allocations show a strong squeeze in allocations to hospitals and academies from above 20% in the last two Fiscal Years (FY s) to 7% in FY 2021/22

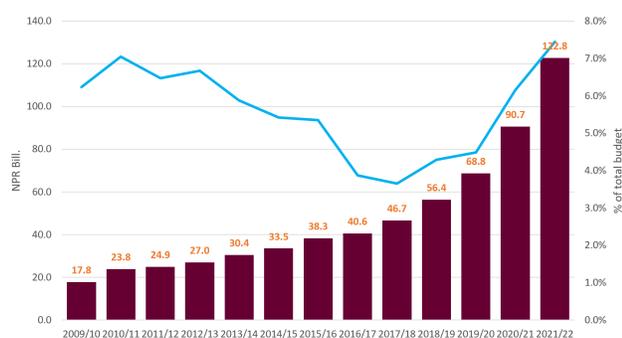
## 1. Overview of recent trends

The budget for health grew from Nepalese Rupees (NPR) 23.81 billion in FY 2010/11 to NPR billion 122.79 in FY 2021/22<sup>2</sup>: an absolute increase of 415% in aggregate over this time period, or 16% per year on average (Figure 1). Despite the rising trend, as a share of total budget allocation, health allocations fell between FY 2009/10 – FY 2017/18 from 7% to 4%. From FY 2019/20 and especially in FY 2020/21 and FY 2021/22 there were significant increases in the health budget in absolute terms as well as a share of the total budget. These increases may be attributable to the Covid-19 prevention and control programmes. In FY 2021/22 health expenditures as a share of consolidated government expenditures in the budget reached 7.5% - the highest allocation observed during the last decade. Nevertheless, health spending in Nepal remains well below the global average of 10% of GDP (WHO, *ibid.*). Virtually all of the increase can be explained by NPR 36.6 billion that was allocated for Covid-19 prevention and response in

<sup>1</sup>Global spending on health: Weathering the storm (WHO, 2020)

<sup>2</sup>All data in this brief have been derived from the most recent Fiscal Budget Speech, MoF, Nepal for FY 2021/22, Redbooks, MoF, Nepal for FY 202/22 and previous years.

FY 2021/22.



**Figure 1.** Health Budget (Left axis) & its rate of growth (Right axis)

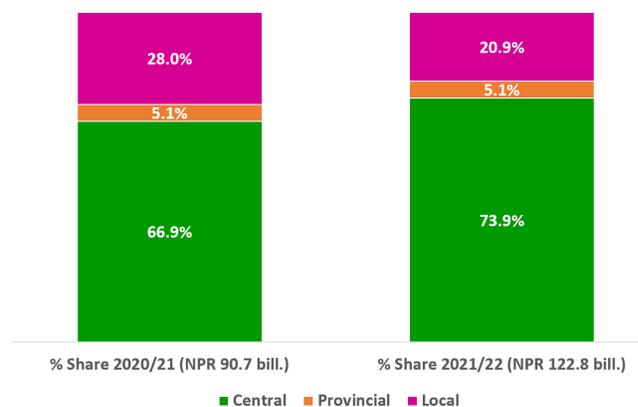
### 1.1 Federalism and health spending

As per the constitution, consolidated health expenditures are split among all three tiers of government, but largely remain within the remit of the central government (Figure 2). Primary healthcare and sanitation are largely LG responsibilities/functions. In FY 2021/22, the share of the central government rose to 74% from 67% the previous FY. The central budget allocated in FY 2021/22 (NPR Bill. 90.8) was nearly equal to the entire consolidated health budget (all three tiers) in the previous fiscal year (NPR Bill. 90.7). A large share of this increase was due to the Covid-19 Prevention and Control Programme which forced budget allocations to rise significantly. The share of provincial governments remained the same while the share of local governments decreased by 7% to offset the increase at the central level. In fact, in absolute terms, LG spending remained almost the same over the last two FYs. Despite the allocation of health and other expenditures to other tiers of government, there remains a question as to whether PGLGs have sufficient autonomy in expenditure allocations as for the most part, they are financed through conditional grants. Furthermore, the primary healthcare needs of Nepal are with LGs, and there is concern about capacity as well as adequacy of resources. As reported recently in a publication titled 'Covid-19 and Nepal's Health Financing' by a consortium comprising Yale University, the London School of Economics, The Governance Lab, and the Nepal Staff Administration College (2020), LGs may have had to dip into disaster relief and other funds to exercise the full gambit of responsibilities conferred to them due to the Covid-19 pandemic.

### 1.2 Functional allocation of the budget

The Redbooks provide expenditure data based on the classification of functions of governments<sup>3</sup>. Government expenditures on health include budgeting for services provided to individual persons as well as services provided on a collective basis.

<sup>3</sup>U.N Dept. of Statistical and Economic Affairs, Classifications of expenditure according to purpose, 2000.



**Figure 2.** Federalism & the health budget

**Table 1.** COFOG Classification: FY 2021/22 (NPR Bill.)

| Category                 | Total         | CG            | PG          | LG           |
|--------------------------|---------------|---------------|-------------|--------------|
| <b>HEALTH</b>            | <b>141.55</b> | <b>108.07</b> | <b>6.34</b> | <b>27.14</b> |
| Products, Appl. & Equip. | 0.92          | 0.37          | 0.29        | 0.26         |
| Out-patient              | 39.90         | 38.63         | 0.71        | 0.55         |
| Hospital services        | 39.14         | 29.27         | 4.36        | 5.51         |
| Public Health Services   | 46.67         | 25.23         | 0.87        | 20.57        |
| R&D                      | 12.82         | 12.46         | 0.11        | 0.25         |
| Health-NEC               | 2.10          | 2.10          | 0.00        | 0.00         |

NEC: Not elsewhere classified

The largest allocation has been for the provision of out-patient and hospital services in the budget, closely followed by public health services. While the former two are largely with the CG with some residual financing for PG and LGs, over 40% of public health service allocations are with LGs.

### 1.3 Major expenditure items & funding

Details of spending at the PGLG level for FY 2021/22 are not available as yet. For the central budget, the activities or programmes with biggest allocations are shown in Table 2. Covid-19 Prevention and Control absorb nearly 40% of the budget rising from NPR 4.8 billion in FY 2019/20 (19% of the budget) to NPR 8 billion in FY 2020/21 (19% of the budget) to NPR 36.8 billion in FY 2021/22. The Integrated Health Infrastructure Development Programme is the 2nd largest budget item and also shows an increasing trend in allocation<sup>4</sup>. The health sector reform programme was allocated 12% of the central budget for health having risen steadily from 1% in FY 2019/20 to 8% in FY 2020/21 (NPR 10.5 billion). The Social Health Insurance Plan has seen a decreasing allocation going from 15% in FY 2019/20 to 12% in FY 2020/21 and 8% in FY 2021/22. However, due to the rising trend in the central government budget, the absolute allocations have not

<sup>4</sup>Nepal Health Infrastructure Development Standards forms the basis for rational planning for establishing and upgrading of health institutions on the basis of such factors as accessibility, catchment population, geography, availability of suitable land, condition of existing or nearby facilities and morbidity statistics.

declined. In tandem, the Family Welfare Programme has seen an increase from 1% in FY 2019/20 to 6% in FY 2021/22 (NPR 5.11 billion). Nursing and social security programmes absorb 3% (NPR 2.55 billion) - down from 8% two FYs ago but marginally higher in absolute amount. Hospitals and academics (all categories) are appropriated 11% of the budget – a significant squeeze compared to 21% in FY 2020/21 and 25% prior to that. In nominal terms the budget for these categories declined from NPR 5.9 billion in FY 2019/20 to NPR 4.8 billion in FY 2021/22. Given the enormous role for hospitals and medical academics during the ongoing Covid-19 pandemic this is of concern. The MoHP absorbs about 2% of the budget, down from 6% in FY 2020/21. It is interesting to note that the largest programmes rely heavily on foreign sources of funding.

**Table 2.** Central Government Expenditures (NPR Bill.)

| Heading                              | 2019/20     | 2020/21     | 2021/22     |
|--------------------------------------|-------------|-------------|-------------|
| Covid-19 Prevention and Control Prg. | 4.79        | 7.93        | 36.58       |
| Integrated Health Infra Devpt. Prg.  | 3.92        | 6.82        | 14.64       |
| Health Sector Reform Prg.            | 0.32        | 3.17        | 10.49       |
| Social Health Insurance Plan         | 4.65        | 5.02        | 7.50        |
| Family Welfare Prg.                  | 0.28        | 1.52        | 5.11        |
| Hospitals                            | 3.55        | 2.69        | 2.62        |
| Nursing & Social Security Prg.       | 2.33        | 1.34        | 2.55        |
| Central Hospital & Academy           | 1.60        | 2.44        | 2.25        |
| MoHP                                 | 0.18        | 2.33        | 1.81        |
| Science Academies (4)                | 2.03        | 1.49        | 1.28        |
| National Academy of Med. Sc.         | 2.24        | 2.14        | 1.24        |
| Integrated Ch. H&N Prg.              | 2.30        | 0           | 0           |
| Others                               | 2.65        | 4.89        | 4.69        |
| <b>Total</b>                         | <b>30.9</b> | <b>41.8</b> | <b>90.8</b> |

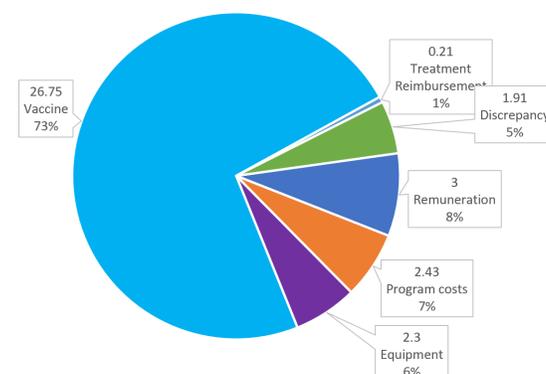
#### 1.4 Covid-19 Prevention and Control Programme

From the Covid-19 Prevention and Control<sup>5</sup> budget allocation of NPR 36.6 billion (40% of the appropriated budget for central governments), 73% - roughly NPR 26.75 billion would be spent on Vaccines (Figure 3). Salaries absorb the next biggest allocation of nearly 8% followed by programme costs (training etc.). The Covid-19 Prevention and Control Programme is expected to be 28% funded by GoN (NPR 10.4 billion including domestic loans), 3% (NPR 1.1 billion) funded through donor grants and 68% (NPR 25.1 billion) funded through donor loans. To the extent that donor commitments do not materialize or Covid-19 vaccine costs overshoot planned estimates due to procurement uncertainties and delays – this programme could face financing challenges while at the same time imposing challenges for financing other critical expenditures (e.g., on routine immunizations).

#### 1.5 Financing public health expenditures

Donors have played an important role in financing public health expenditures in Nepal, although until FY 2019/20 their

<sup>5</sup>This is the largest health budget item and refers to the expenditures allocated for the governments' Covid-19 response.



**Figure 3.** Disaggregation of Covid-19 budget by amounts and per cent

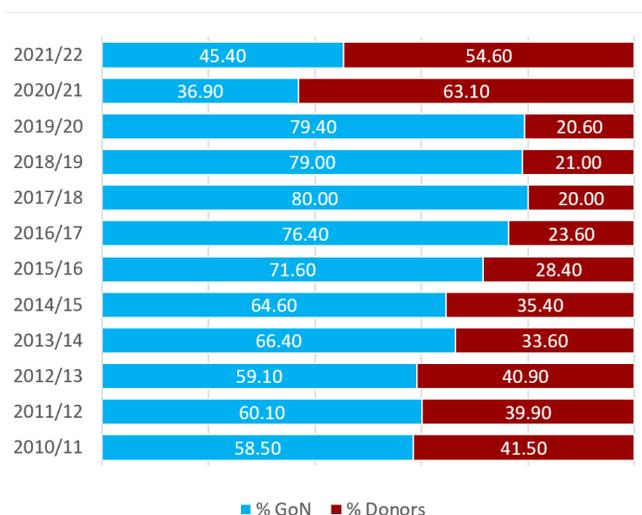
share in total finances declined from 42% in FY 2010/22 to 21% in FY 2019/20.<sup>6</sup> Subsequently, the share of Government of Nepal (GoN) financing increased from 59% to 79% over the same period (Figure 4). Given the rising trend in the budget, its absolute financing contributions also increased. The GoN financing includes both domestic revenues as well as domestic loans. In the last two Covid-19 pandemic fiscal years, donor's share in financing the public health budget hit historic highs of 63% (FY 2020/21) and 55% (FY 2021/22). It is important to note that a large part of the split between sources of financing is driven by the Covid-19 Prevention and Control programme – which is allocated a significant share of the health budget and funded primarily through donor loans. The major programmes for which foreign financing is important are:-

- Covid-19 prevention and control: 28% to be financed by GoN, 3% through foreign grants and 68% through foreign loans.
- Integrated health infrastructure development programme: 14% to be financed by GoN, 16% through foreign grants and 69% through foreign loans.
- Family Welfare Programme: 100% financing through foreign grants.

## 2. Issues

- **Covid-19 financing gap** could emerge if procurement costs are higher than expected or if donor commitments do not materialize as planned. Donors are expected to contribute 72% of the total Covid-19 Prevention and Control Programme costs. The GoN share is at 28% including domestic loans. At the same time, financing this programme, although critical, could also crowd-

<sup>6</sup>Although in terms of absolute numbers, the donor share rose from about NPR 8 Billion to NPR 14 Billion over this time period. This increase is because rising health appropriations offsets the declining share of donor contributions.



**Figure 4.** Financing public health expenditures

out other critical health and social expenditures (e.g., routine immunizations, R&D, etc.)

- Overall low per capita expenditure despite significant Covid-19 related increases in budget allocations-** Prior to the Covid-19 pandemic and the increased expenditures associated with it, per capita health expenditures were at NPR 1,880 per annum<sup>7</sup>. This figure rose to over NPR 4,000 per annum in FY 2021/22 although a large share of the increase was attributable to the increased budget of the Covid-19 Prevention & Control programme.
- Significant decrease in allocations to hospitals and academics** is an issue given the role given to them not only for the Covid-19 pandemic, but for general health and disease outbreak concerns in Nepal.
- Donor commitments and sustainability** remain an issue as some of the largest programmes such as the health sector reform programme, integrated national health infrastructure programme and the Covid-19 Prevention and Control programme which together are allocated nearly 70% of the public health budget are heavily reliant on foreign sources of funding.
- PGLG allocations** remain low in relation to their functional assignments. There are also concerns regarding capacity gaps and resource gaps (human and financial).

## Acknowledgments

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<sup>7</sup>obtained by dividing budget allocations for FY 2018/19 (56.4 NPR Bill., by estimated population - 30 million.