

# Examining Budget Credibility in Nepal's Health Sector

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# Introduction

Nepal underspends its approved budget annually, and in recent years, the country's aggregate budget has seen repeated downward revisions. The lack of parliamentary budget approval makes matters worse by enabling the poor institutional practice of shifting approved funds from one budget category to another.<sup>1</sup> Consequently, key social sector ministries— including Environment, Agriculture and Food, and Health underspent their budgets by an average of 4, 30, and 35 percent, respectively, during budget implementation between 2018 and 2020.<sup>2</sup>

Nepal's 2020 Voluntary National Review on the SDGs notes that despite the modest gains to “ensure healthy lives and promote well-being for all at all ages” (SDG 3), there are still critical challenges plaguing Nepal's health sector that must be addressed.<sup>3</sup> The key difficulty is ensuring access to health services for every citizen of Nepal, especially those in poor and marginalized communities. A health insurance scheme is being implemented in partnership with the federal government to decrease the out-of-pocket expenditure of local people. However, there is a long way to go, as data indicates that only seven percent of the population has health insurance. Besides the accessibility problem, the quality of health services requires attention. To aid efforts toward achieving SDG 3, Nepal should improve the execution of its health budget, implementing it as approved.

The Nepal Government health expenditure as a percentage of the GDP was static until FY 2017/18, when it reached 1.5 percent and 2.2 percent and 2.4 percent in FY 2019/20 and FY 2020/21 respectively. The World Health Organization reports that public expenditure of almost 6% of GDP on health will considerably reduce out-of-pocket payments for healthcare services.<sup>4</sup> Therefore, public health expenditure above 5% of GDP is necessary to attain a conservative target of 90% coverage of maternal and child health services and progress towards universal Health Coverage (UHC)<sup>5</sup>. By this measure, the government of Nepal's outlays on health may be sub-par and not drive efforts towards UHC.

This brief compares actual expenditures against approved budget allocations in Nepal's health sector, examining why there are significant deviations over the four-year period from FY 2017/18 to FY 2020/21. The brief further analyzes how these budget deviations affect the delivery of planned programs and services within the health sector and recommends reforms to improve the implementation of Nepal's health budget. To arrive at these recommendations, the authors relied on document reviews, including

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1 <https://internationalbudget.org/wp-content/uploads/Nepal-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf>

2 <https://internationalbudget.org/wp-content/uploads/Nepal-Budget-Credibility-and-the-Sustainable-Development-Goals.pdf>

3 [https://sdgs.un.org/sites/default/files/documents/26539VNR\\_2020\\_Nepal\\_Report.pdf](https://sdgs.un.org/sites/default/files/documents/26539VNR_2020_Nepal_Report.pdf)

4 World Health Organization. (2010). The world health report: health systems financing: the path to universal coverage. World Health Organization. 9789241564021\_eng.pdf (who.int)

5 [https://www.chathamhouse.org/sites/default/files/field/field\\_document/20140521HealthFinancing.pdf](https://www.chathamhouse.org/sites/default/files/field/field_document/20140521HealthFinancing.pdf)

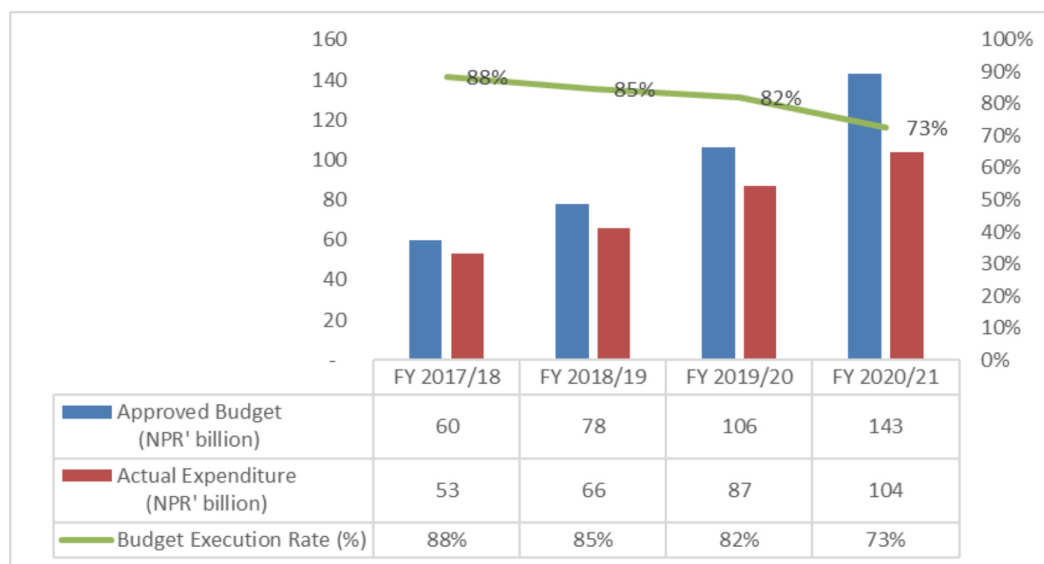
budget statements and budget performance reports, as well as budget execution data pulled from the Consolidated Financial Statement of the Financial Comptroller General Office (FCGO). Data on health sector underspending is then compared to Nepal's health performance indicators, including progress to achieve relevant Sustainable Development Goal (SDG) targets.

## Budget Credibility Trends in Nepal's Health Sector

This section discusses budget implementation in Nepal's health sector overall (at the federal, provincial, and local government levels) to ascertain whether actual expenditure aligns or deviates from the approved budget.

Recent data published by the Federal Ministry of Health and Population's Policy Planning and Monitoring Division show that the overall health sector budget was underspent against the approved budget by 18 percent on average between FY2017/18 and FY 2020/21. This amounts to an average health sector execution rate of 82 percent over the period. The largest underspend of 27 percent was recorded in 2020/21, at the height of the Covid-19 pandemic, when Nepalese required significantly more healthcare services although the allocated health budget was boosted by roughly 35 percent compared to the previous fiscal year (see Figure 1).

**Figure 1: Nepal's Health Sector Budget Execution Trend (2017/18 - 2020/21)**



Source: Ministry of Health and Population, 2022<sup>6</sup>

<sup>6</sup> Ministry of Health and Population Policy Planning and Monitoring Division, January 2022. "Health Budget Sector Analysis: First Five Years of Federalism." <https://www.nhssp.org.np/Resources/HPP/Final%20Budget%20Analysis%20of%20Health%20Sec->

Analyzing the budget implementation trends in Nepal's health sector by administrative classification or by spending entity shows that the sub-national government (SNG) health budgets appear more credible, with spending deviations lower than the sector ministry's budget.

**Table 1: Federal and Sub-national Budget Deviation Trends in Nepal's Health Sector**

	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
	(Amount in NPR' billions)			
<b>Ministry of Health and Population</b>				
Budget allocation	32	34	43	61
Actual expenditure	27	24	31	42
Percent of underspending	-14%	-28%	-28%	-32%
<b>Provincial Governments</b>				
Fiscal transfer budget	0.2	6	9	12
Actual fiscal transfer	0.2	5	8	10
Percent of underspending	0%	-25%	-18%	-14%
<b>Local Level Governments</b>				
Fiscal transfer budget	19	23	29	31
Actual fiscal transfer	17	22	28	28
Percent of underspending	-10%	-8%	-6%	-9%

Source: Ministry of Health and Population, 2022

Between FY 2017/18 and FY 2020/21, local governments recorded an average health budget execution rate of 92 percent, provincial governments recorded 86 percent, and the Ministry of Health and Population recorded 75 percent (see Table 1).

The different types of spending within the Ministry of Health and Population budget show varying rates of execution. The ministry's capital budget recorded a higher average spending deviation during budget implementation, with nearly a third (29 percent) of planned capital outlays not implemented as approved in the last four financial years. By contrast, the ministry's recurrent budget recorded 20 percent underspending during the same period. In FY 2020/21, the gap between the capital and recurrent budgets was the most pronounced, with only 50 percent of planned capital expenditure implemented, compared with 72 percent of recurrent expenditure. A key lesson from this trend analysis is that continuous increases in budgetary allocations to Nepal's health sector may not translate to better health service delivery outcomes. Focusing on improving spending of resources that are already allocated is crucial to the provision of planned healthcare services. Spending the health budget as planned fulfills existing commitments the Nepalese government has already made and avoids diverting resources allocated to other sectors or priorities.

**Table 3: Ministry of Health and Population Budget and Percentage Expenditure, Capital and Recurrent (NPR billion)**

Budget Type	FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21	
	Budget	% Exp	Budget	% Exp	Budget	% Exp	Budget	% Exp
Capital spending	7	91	9	68	9	78	15	50
Recurrent spending	26	80	21	90	30	81	47	72
Total	33	82	29	83	39	80	62	67

Source: Annual Red Book, FY 2017/18 – FY 2020/21<sup>7</sup>

<sup>7</sup> The Government of Nepal's Red Book mainly covers government funds and contributions from EDPs in the form of direct and pooled funds and their expenditures <https://mof.gov.np/site/publication-category/28>



# Causes and Impact of Budget Credibility Challenges in Nepal's Health Sector

The Ministry of Health and Population (MoHP) in Nepal is heavily dependent on external development partners (EDPs) to fund its activities. For fiscal years 2020/21 and 2021/22, 62 percent and 48 percent of the ministry's budget were funded by EDPs, respectively. This implies that shortfalls in EDPs' funding adversely impact the sector ministry's budget implementation and the provision of planned healthcare services and programs such as those directed at women and poverty reduction initiatives.<sup>8</sup> On the other hand, sub-national governments are reliant on the federal government to fund their health budgets which is hinged on federal government revenue collections. Also, the different execution rates for the ministry's capital and recurrent budgets can be attributed to the fact that a significant proportion of the recurrent budget is used for administrative expenditures, including salaries and allowances, while implementation of the capital budget is often hampered by procurement delays.

To avoid accountability for its allocative, operational, and executive inefficiencies, the government has made a habit of downsizing its approved annual budget during the implementation stage without submitting a budget amendment bill to the parliament. For example, for the 2022/23 fiscal year, the government reduced its entire budget from NPR 1,793.83 billion to NPR 1,549.99 billion (a 13 percent reduction) without providing adequate justification or obtaining approval from the federal parliament, which is the budget approving authority.<sup>9</sup>

The Finance Act and Appropriation Act serve as fundamental legal instruments for ensuring the government's accountability to parliament when it comes to revenue collection and public expenditure. However, the Appropriation Act in Nepal contains several loopholes and ambiguous provisions, which enable the government to interpret them conveniently for purposes such as budget downsizing, resizing, and virement. Regrettably, the parliament is weak in its oversight, as no questions are raised in either house regarding these issues, including budget virements that exceed the legal limit of 10 percent between different grant titles. Parliamentarians appear to be unaware of their mandate to improve public finance management. Instead, their primary focus is on total budget figures while deviation in spending against the approved budgets across critical social sectors like healthcare seems to escape their scrutiny. Solely focusing on the size of the budget to appease the public and formulating that

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8 Ministry of Health and Population Policy Planning and Monitoring Division, January 2022. "Health Budget Sector Analysis: First Five Years of Federalism." <https://www.nhssp.org.np/Resources/HPP/Final%20Budget%20Analysis%20of%20Health%20Sector-Five%20Years%20of%20Federalism.pdf>

9 <https://kathmandupost.com/money/2023/02/12/nepal-downsizes-budget-as-revenue-collection-plunges#:~:text=On%20Sunday%2C%20the%20government%20announced,in%20the%202022%2D23%20budget>

budget without thoroughly analyzing spending capacity has a detrimental effect on budget credibility.

The lack of a coherent national health policy at the federal and sub-national levels has always been a challenge. Though Nepal's budget seems to adopt a bottom-up approach on paper, we find it remains top-down in practice. We see this in the lack of federal and sub-national budget discussions, including on health. The lack of inclusive planning processes has hindered proper budget allocation by privileging federal initiatives and agendas without considering sub-national capacity to implement them.

Underspending in Nepal's health sector has meant corresponding under-investment in federal and sub-national health systems. Poor infrastructure and low-quality healthcare services have contributed to the country's slow progress toward SDG 3 on health. Data on Nepal's SDG trends show that "major challenges" remain in achieving SDG 3, with moderate improvements that are insufficient for the country to attain this goal.<sup>10</sup> To reverse this trend, the Ministry of Health and Population and SNGs must have a credible budget premised on realistic estimates for the sector's priority needs. The government, accordingly, must release approved funds, on time, for their implementation.

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<sup>10</sup> <https://dashboards.sdgindex.org/profiles/nepal>

## Conclusions and Recommendations

The government of Nepal's current investment in health is not sufficient to achieve UHC or the health-related SDG targets by 2030. Further, the government has repeatedly under-executed its annual health budget between 2017/218 and 2020/21. The budget is essentially a promise made to the public, and when the allocated funds go unspent, it creates an atmosphere of distrust between the government and the public. This study has shown that increases in budgetary allocations to Nepal's health sector may not necessarily lead to enhanced health outcomes for the population, but rather improving spending of resources that are already allocated could be key to the provision of planned healthcare services.

To improve the execution of the health budget in Nepal, this brief recommends the following:

- The federal government should approve and release, in a timely manner, its allocated budget to the Ministry of Health and Population and SNGs.
- The federal government should improve the health budget planning and implementation processes to reflect the needs of the federal and SNGs and put in place a system to track and consolidate health budget expenditures at all levels of government
- EDPs and the government should work together to improve the utilization of foreign assistance in the health sector.
- Parliamentarians must exercise their oversight of in-year implementation of the health budget by requesting updates from the health ministry on budget execution and demand adequate explanations for why spending deviations have occurred to improve budget implementation.
- The health ministry should deepen transparency by improving its reporting on budget execution compared with original and revised allocations, as well as performance against non-financial targets or outcome indicators and provide adequate reasons and justifications for deviations from the approved budget.

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