Health Sector Budget Analysis of Madhesh Province and Local Levels

Nepal Health Sector Support Programme
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Study team
July 2022

EXECUTIVE SUMMARY

The Health Sector Budget Analysis (BA) has been conducted at the federal level every year since the Fiscal Year (FY) 2013/14. The analysis of flow of grants from Federal Government (FG) to Sub-national Governments (SNGs), identification of gaps in resource allocation and absorption and policy recommendations developed from the analysis have helped the FG in evidence-based planning. After federalism, SNGs have also been formed with their own revenue sources that can be allocated to the health sector. However, the extent of their contribution in the health sector budget has not been calculated. Furthermore, the lack of detailed analysis of the budget has made it difficult to identify the actual budgetary needs for the province. Hence, this budget analysis report is the first attempt in capturing a sub-national BA.

The Health Sector BA report of Madhesh Province and Local levels (LLs) intends to enable the Ministry of Social Development (MoSD), Provincial Health Directorate (PHD), LLs, policy makers, planners, programme managers and External Development Partners (EDPs) to understand the trend of budget allocation for the three-year period between the FY 2019/20 to FY 2021/22. The expenditure reported is for two fiscal years, FY 2019/20 and FY 2020/21. Expenditure for FY 2021/22 has not been included in the analysis. For comparability purposes, macro-level indicators from FY 2017/18 have been reported. For this analysis, the budget-related data at the Provincial level has been captured from the Provincial Line-Ministry Budget and Information System (PLMBIS) and expenditure from the Computerised Government Accounting System (CGAS) while the Sub-national Treasury Regulatory Application (SuTRA) has been used to capture both allocation and expenditure at the LLs. The adjusted budget has been used to capture final expenditure in the former years and the initial budget has been used to display allocation in the current fiscal year. Therefore, minor changes in the budget might be observed when compared with the federal BA report from previous years. Additionally, the undertaken field work showcased evidence of a few errors within the recording and reporting of the budget at all three spheres of government indicating that the actual budget could be slightly different than the figures presented in this report. However, this report provides a format to SNGs to analyse their budget by capturing the information related to the budget channelled to health.

Findings

Government spending on health as a percentage of Gross Domestic Product (GDP) has improved at both the National and Provincial level. In Madhesh Province, it increased from 0.5% of GDP in FY 2017/18 to 1.4% in FY 2020/21 though it is far less to progress towards Universal Health Coverage (UHC) than that recommended by the Chatham House Report, 2014[1]. Similarly, the per capita expenditures on health in the province show increasing trends, with almost a threefold increase between FY 2017/18 and FY 2020/21, when they peaked at NPR 1,235. However, there has always been a huge gap in per capita expenditures between the provincial and national level. The trend in the health sector budget allocation as a percentage of the total budget shows that the share of the health sector budget had increased up until FY 2020/21 (10.1%) but decreased to 8.2% in FY 2021/22.

Madhesh Province receives budget from the Federal Government (FG) and has its own revenue sources. It also allocates its budget to the LLs in the form of conditional, equalisation, matching and special grant. Though the federal conditional grant was a major source of the health sector budget for the Province in FY 2019/20, it has increased its investment in health in the recent

[1] Mcintyre D., Meheus F., & J.A Rottingen. (2017) 'What Level of Domestic Government Health Expenditure Should we Aspire to for Universal Health Coverage?', *Health Economics, Policy and Law 12* (2),125-137.

years, and over half of the health sector budget was funded by its own revenue sources in the last two years (53% in FY 2020/21 and 56% in FY 2021/22). Excluding the budget allocated by the LLs within the Province, the provincial health budget has increased by almost NPR 284 million in FY 2020/21, but decreased in the following fiscal year, indicating that this could be due to lower revenue generation in the Province as a result of COVID-19. Additionally, the lower budget allocation to the health sector might be due to less priority for COVID-19 testing and management.

At the LL, the federal grant remains the major source of the health sector budget. Less than 1.5% of the total health budget of the LLs has been financed by the province in the last three consecutive years. Similarly, there is a decreasing trend in the share of the total health budget from internal revenues as it decreased from almost 13% in FY 2019/20 to 10.6% in FY 2021/22. The budget absorption has increased from 78% in FY 2019/20 to 84% in FY 2020/21, with the slowest absorption being the provincial grant coming to 8% in FY 2019/20 and 39% in FY 2020/21. The initial analysis suggests that this could be due to delays in funds' flow, release of budget utilisation guidelines and a lack of skilled human resources at the LLs as the potential reasons for low absorption. However, further studies to understand the reasons and actions to address these challenges and findings would be necessary for better absorption of the budget and the delivery of health services to ensure health is maintained as a fundamental right of citizens as mandated by the Constitution of Nepal. Health policy and strategy at all three spheres of the government need to be aligned with a unified policy and strategy. A costed Health Financing (HF) strategy needs to be formulated, enabling the GoN to secure at least USD 86 per capita for improving access to primary care and encourage Provincial Governments (PGs) and LLs to increase their investment in health.

The Provincial Governments (PG) and LLs receive a budget from the FG under a grant heading which need to be converted into corresponding economic headings within the respective financial management systems. As this has not been done for some of the programmes, a huge volume of the budget remains under an 'intergovernmental fiscal transfer' heading. Hence, mechanisms need to be developed to recode these activities to ensure public accountability of funds and to also enhance the capacity of the PG and LLs to record and report budget and expenditure related data and information. Discussion around a conditional grant transition plan for the province should also be initiated.

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ACRONYMS

AWPB	Annual Work Plan and Budget
BA	Budget Analysis
CG	Conditional Grant
CGAS	Computerised Government Accounting System
DTCO	District Treasury Comptroller Office
e-AWPB	Electronic Annual Work Plan and Budget
EDP	External Development Partners
FCGO	Financial Comptroller General Office
FG	Federal Government
FMoHP	Federal Ministry of Health and Population
FY	Fiscal Year
GoN	Government of Nepal
HF	Health Financing
HO	Health Office
LL	Local Level
LMBIS	Line Ministry Budget Information System
MoEAP	Ministry of Economic Affairs and Planning
MoF	Ministry of Finance
MoSD	Ministry of Social Development
NHSS	Nepal Health Sector Strategy
NHSSP	Nepal Health Sector Support Programme
NNRFC	National Natural Resource and Fiscal Commission
NPR	Nepalese Rupees
PG	Provincial Government
PHD	Provincial Health Directorate
PHLMC	Provincial Health Logistics Management Centre
PLMBIS	Provincial Line Ministry Budget Information System
PPHL	Provincial Public Health Laboratory
PTCO	Provincial Treasury Comptroller Office
RMNCAH	Reproductive, Maternal, Newborn, Child and Adolescent Health
SDG	Sustainable Development Goals
SuTRA	Sub-national Treasury Regulatory Application
SNG	Sub-national Government
UHC	Universal Health Coverage

CHAPTER 1: INTRODUCTION

This chapter provides a brief background to set the current context of the health systems, and outline the objective of the Budget Analysis (BA) and the methodology used for the sub-national BA.

1.1 Background

Health has been declared a fundamental right by the Constitution of Nepal, 2015 (GoN, 2015). The National Health Policy (2019), comes under the constitution's overarching framework, aims to implement this right by ensuring equitable access to quality health care services for all (GoN, 2019). Similarly, the Nepal Health Sector Strategy (NHSS, 2016-2021) lays out the strategic direction and specific roadmap to implement the constitutional mandate (GoN, 2016). The Federal Ministry of Health and Population (FMoHP) has endorsed the NHSS' implementation plan, which provides the budgetary framework to ensure Nepal's commitment in achieving Universal Health Coverage (UHC) and Sustainable Development Goals (SDGs) by 2030. Since FY 2017/18, the PG, as well as the LLs, have started preparing their own Redbook and Annual Work Plan and Budget (AWPB) reflecting their policy and resource allocation decisions determining the programmes, activities, and services to be implemented through the Provincial Ministries and health section of LLs. They have also formulated their own policies outlining their needs and priorities in the health sector. In this context, Nepal's health sector has an opportunity to have a greater fiscal space through the resource allocation from all spheres of governments.

The Federal, Provincial as well as Local Governments, collectively and continuously aim to improve their financial management through their timely planning and budgeting of their plans, programmes and disbursement of funds to their respective Spending Units. Attempts are also being made to strengthen the budgetary recording and reporting system to ensure public accountability of funds. This provides a foundation for effective, efficient, and quality service delivery. The Provincial Line Ministry Budget Information System (PLMBIS) is being used for planning at the Provincial level. In FY 2020/21, the Federal Government (FG) made it mandatory to use Computerised Government Accounting System (CGAS) for expenditure tracking at the Provincial level and Sub-national Treasury Regulatory Application (SuTRA) for both planning and expenditure tracking at LLs. Since FY 2013/14, the Health Sector Budget Analysis of the FG is being conducted every year to analyse the flow of grants from the FG to Sub-national Governments (SNGs), resource allocation, absorption gaps and providing policy recommendations. However, such attempts have not been made at the Provincial level. In the absence of credible evidence, it would not be possible for PGs to request for an increased proportion of unconditional grants and reduces control through conditional grants from the FG. Furthermore, it would also not be possible to determine the sufficiency of the budget allocation in the health sector in the province. Additionally, the COVID-19 pandemic has placed health at the centre of public debate raising concerns around resource allocation for all spheres of government.

This budget analysis report is the first attempt at a sub-national budget analysis and primarily aims to provide a format to the SNG to analyse their budget by capturing the information related to their health budget channelled to the health section of the Ministry of Social Development (MoSD) of Madhesh Province and its spending units from different sources. In

addition, the conditional grants provided by the FG to LLs within Madhesh Province have been reported. Efforts have also been made in the report to analyse the budget allocated to health to and from Madhesh Province and the subsequent LLs through different fiscal modalities including the internal source.

1.2 Objectives of the Analysis

The purpose of this BA is to enable the MoSD, Provincial Health Directorate (PHD), LLs, External Development Partner (EDP)s, policy makers, and planners in evidence-based decision making by providing disaggregated information on the health sector budget from FY 2019/20 - FY2021/22. It also aims to provide the reader with a synthesis of the main features of budget allocations and comparisons with actual spending over the last two fiscal years by source, programme, and disbursement level.

The specific objectives of BA are as follows:

1. Analyse the trend of macro-indicators in health from FY 2017/18 to FY 2021/22;
2. Analyse the provincial health sector budget allocation and expenditure including the budget of LLs within the province from FY 2019/20 to FY 2021/22;
3. Analyse the health sector budget allocation and expenditure from FY 2019/20 to FY 2021/22 by organisational level, source of funds, chart of accounts and chart of activities;
4. Analyse the health sector budget allocation, and expenditure by Nepal Health Sector Strategy (NHSS) indicators (outcome level indicators) to and from Madhesh Province and the LLs within the Province since FY 2019/20 till FY 2021/22; and
5. Provide policy recommendations to programme planners.

1.3 Methodology

The analysis of secondary data using the Redbook, PLMBIS, eAWPB, CGAS and SuTRA from FY 2019/20, FY 2020/21 and FY 2021/22 has been carried out. For comparability purposes, macro-level indicators have been reported since FY 2017/18. The main sources of information came from the federal, provincial, and local government budget books. The task was performed in three phases:

a. Collect, review, organise and analyse budget and expenditure data;
b. Validate data through workshop;
c. Finalise the report.

This BA has attempted to analyse the budget provided to the health sector using different sources at all spheres of government. Adjusted budgets of the past fiscal years have been used to reflect the final expenditures. Some minor changes in amounts could be evident when readers refer to the previous BA reports of the FG. However, the total budget remains same. For FY 2021/22, the initial budget is used in this analysis. The chapter on analysis of the budget for the province was prepared based on the information collected from PLMBIS and CGAS whereas the local level was prepared based on SuTRA. The data was compiled into standard templates, which then provided the platform for analysis. Discussions with the MoSD, PHD, Provincial Health Logistics Management Centre (PHLMC), Provincial Public Health Laboratory (PPHL), Health Office (HO) and financial officials also provided useful commentary, which has been incorporated into this report. For the purpose of this analysis, the total budget

and health budgets of the FG, Madhesh Province and it's subsequent LLs have been analysed.

However, the field work for the preparation of this report suggested a few errors in the recording and reporting of the budget at all three spheres of government indicating that the actual budget could be slightly different than the figures presented in this report. Yet, this report highlights the major observations in the provincial budget and expenditure, their break-down, key challenges and policy recommendations which could be helpful for the province to improve their budgeting pattern, recording and reporting system and also develop their budget analysis report on their own.

CHAPTER 2: PLANNING, BUDGETING AND EXPENDITURE PATTERN

This chapter provides some theoretical background on fiscal federalism, budget characteristics, budget planning and preparation process at the provincial and local level, and budget and expenditure reporting mechanism.

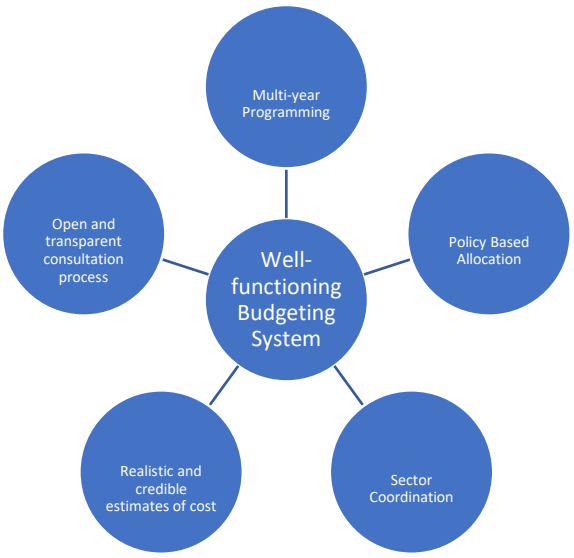
2.1 Fiscal Federalism in Nepal

Fiscal federalism started in Nepal in FY 2017/18. Equalisation funds and conditional grants were the initial forms of fiscal transfers made by the GoN. By FY 2018/19, all other forms of fiscal transfers viz revenue transfer, special and complementary/matching funds came into practice. Planning, budgeting, expenditure, and reporting mechanisms have also been evolving and improving over time. The PGs have also started sending conditional and unconditional grants to their spending units including their LLs by mobilising the resources received from the FG and their own internal sources. Additionally, LLs have been generating their revenues and utilising them to meet the local needs and priorities.

The National Natural Resource and Fiscal Commission (NNRFC) at the federal level plays a key role in estimating fiscal resources and determining the basis for their distribution (Devkota, 2021). As per the recommendations of NNRFC, the Ministry of Finance (MoF) executes the fiscal transfer of the federal budget. The Ministry of Economic Affairs and Planning (MoEAP) at the provincial level is the main institution responsible for planning and budgeting. Along with the economic analysis, revenue-sharing and fiscal management, MoEAP also executes fiscal transfers from PG to provincial entities and LLs. Similarly, the LLs formulate their own plans and programmes.

2.2 Budget Characteristics

In the public sector, the budget is a primary instrument for strategic resource allocation. The way budget allocations are organised, classified, and presented in policy and programme has a direct impact on actual spending and ultimately on the performance of the health sector. Health budgets are formulated and executed based on goal-oriented programmes (rather than a list of inputs) and help to build better alignment between budget allocations, sectoral priorities, and reform indicators.



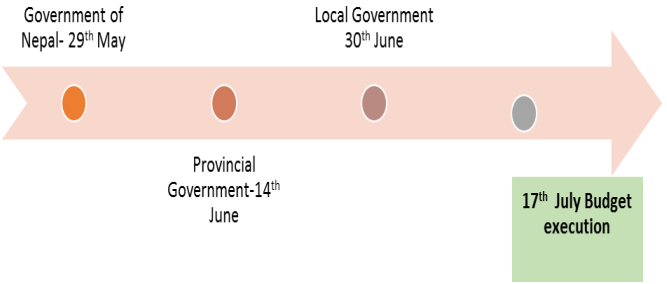
From the perspective of Public Financial Management (PFM), robust public budgeting serves several important functions including setting expenditure ceilings, promoting fiscal discipline and financial accountability, and enhancing efficiency in public spending. The key features of a well-functioning budgeting system typically include multi-year programming, policy-based allocation definition, sector coordination for budget formulation; realistic and credible estimates of costs; and an open and transparent consultation process. As Nepal's commitments in achieving UHC and SDGs by

2030 largely depend on a dominant share of public funds, it is important to note that even increased resources for the health sector will not help achieve the UHC and SDG in the absence of a well-functioning planning and budgeting system.

2.3 Budget Preparation Process in FY 2021/22

2.3.1 Planning in FY 2021/22 at Provincial Government

In FY 2021/22, Madhesh Province was provided with NPR 811.6 million as a conditional grant through the Redbook which gets channelled through MoFAGA. The PG budget included in the Redbook does not need further authorisation. PGs have to announce budget by 14th June, (31st Jestha). From the federal level, the MoF sends a circular through its website to all District Treasury Controller Offices (DTCO) to release the first quarter of the budget as per the Redbook irrespective of the type of grant (equalisation or conditional grants). MoEAP at the provincial level prepares the social sector budget including the health budget. Hence, the health budget for PGs can include different types of fiscal transfers (revenue transfer, equalisation, conditional, special, and matching fund) from FG and their own revenue and foreign sources. Their budget should be executed by the 17th of July (1st Shrawan).



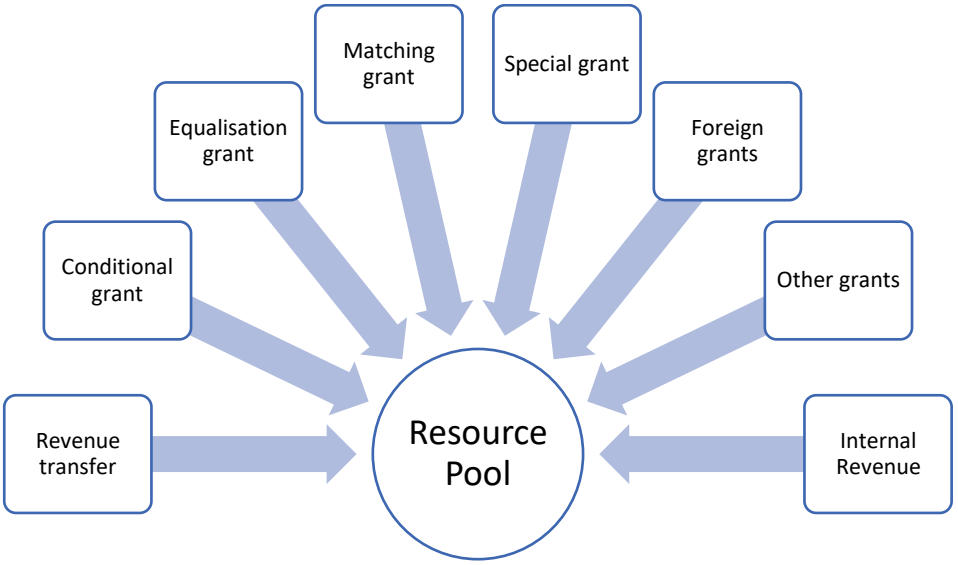
2.3.2 Planning in FY 2021/22 at Local Level

In FY 2021/22, LLs within Madhesh Province were provided NPR 4.8 billion as a conditional grant from the FG channelled through the Redbook. Similar to the conditional grants sent to PGs, the LL budget included in the Redbook does not need further authorisation. The MoF sends a circular through its website to all DTCOs to release the first quarter of the budget as per the Redbook, irrespective of the type of grant. Therefore, the health budget for LLs can include different types of fiscal transfers (viz. Revenue transfer, equalisation, conditional, special, and matching fund) from the FG. In addition, they can also receive a provincial grant through the above-mentioned fiscal transfer modalities and have their own revenue and foreign sources. The LLs should finalise their budget by mid-July (end of Ashad) and budget execution should start from the 17th of July (1st Shrawan).

2.4 Resource Pool at PGs and LLs from Fiscal Transfers

Resource pool at SNGs can be broadly categorised as internal and external sources. Internal sources consist of revenue collected/generated from tax levy by SNGs. External sources consist of different forms of inter-governmental fiscal transfers, funds from EDPs and philanthropy. In addition to the conditional grants for health, PGs and LLs can allocate resources to the health sector from the following resource pool.

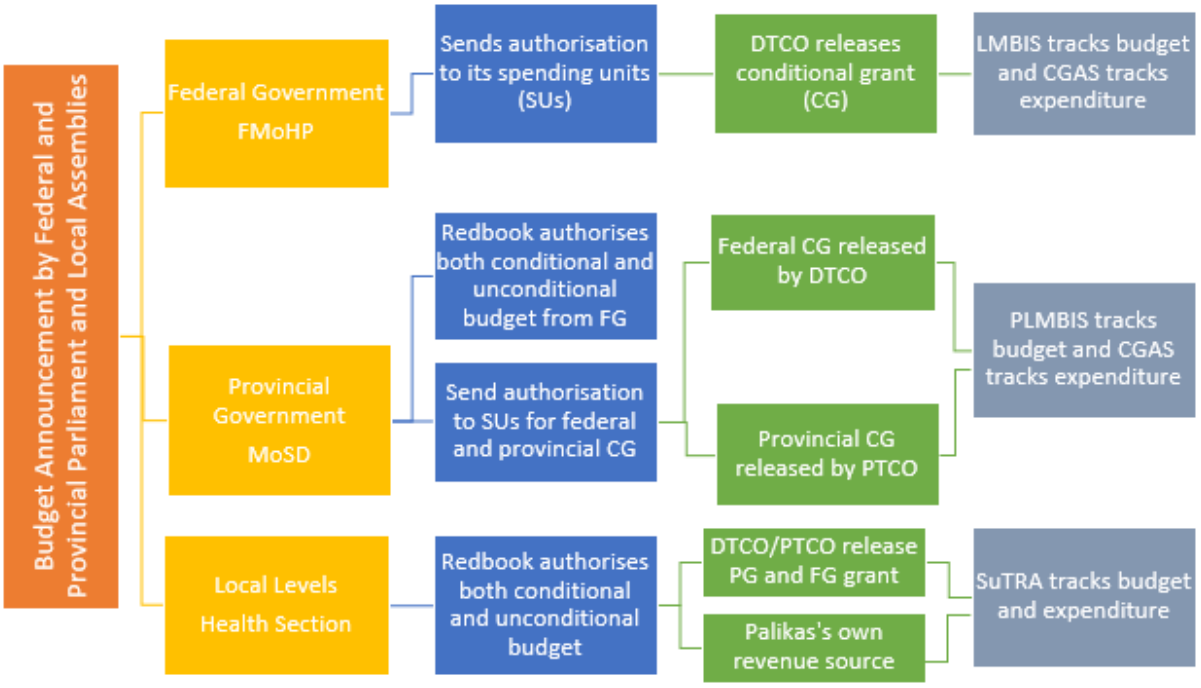
Figure 2.4 Resource Pool for Provincial and Local Government



2.5 Budgeting and Reporting Mechanism in FY 2021/22

At the federal level, the planning and budgeting process starts at the beginning of January while the provincial and local levels start in mid-January. The constitution obligates both the LGs and PGs to prepare their AWPB through a standard process. In this fiscal year, PGs and LLs organised planning and budgeting meetings, which have been endorsed by their parliaments and assemblies. The following flow chart shows the budgeting and reporting mechanism for FY 2021/22 at the provincial and local levels.

Figure 2.5 Budgeting and Reporting Mechanism for FY 2021/22



The budget mobilisation begins after the budget is announced by the Federal and Provincial Parliament and Local Assemblies. The FG sends the budget authorisation to its spending units and DTCO releases the conditional grant. The budget at FMoHP and its spending units is tracked with the help of LMBIS while expenditure is tracked using CGAS. The MoF also sends a circular to DTCO to release the conditional as well as unconditional grants to the PGs and LLs. As the PGs also formulate their own plans and budget, they send authorisation to their spending units for both ffederal and pprovincial conditional grants. The federal conditional grant is released through DTCO while the provincial conditional grant is released through PTCO. Here, PLMBIS is used for recording the budget related data and expenditure is tracked with the help of CGAS. Similarly, SuTRA is used at the LLs to track both budget and expenditure related data. Additionally, financial reports in all spheres of government are prepared in the forms and formats prescribed by the Financial Comptroller General Office (FCGO) as they are mandated to comply with the existing financial rules and regulations to maintain financial discipline within their jurisdiction.

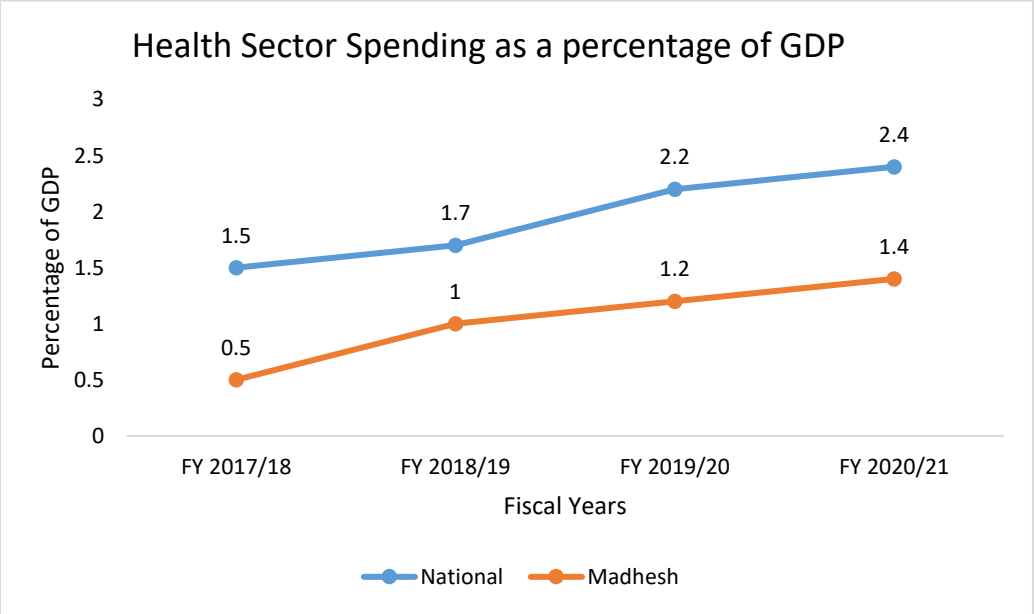
CHAPTER 3: ANALYSIS OF MACRO INDICATORS FOR HEALTH SECTOR

This chapter provides a snapshot of Madhesh Province's macroeconomic status and investment in the health sector through the analysis of the share of GDP in health, per capita health expenditure and percentage of allocation in the health sector out of the total budget. For clarity purposes, the health sector budget is defined as the health budget allocated to the health section of the MoSD, other line ministries, provincial health entities and local levels. The following analysis does not provide definitive reasons for trends but does try to elucidate potential reasons for some of the findings.

3.1 Trends in Health Budget Spending of Madhesh Province as a percentage of GDP

Figure 3.1 shows the health sector spending of Madhesh Province and national level as a percentage of GDP from FY 2017/18 to FY 2020/21. The provincial health budget includes the budget from the FG and province's internal resources. The health sector spending of the province has been increasing trend since FY 2017/18 and subsequently reached 1.4% of GDP in FY 2020/21. A gap can be observed between the national and provincial health sector spending which has not narrowed over the years. The 2010 World Health Report states that that public spending of about 6% of GDP on health would prevent catastrophic expenditure of people from out-of-pocket payments (WHO, 2010). Similarly, the Chatham House report issued in 2014 recommended that countries should strive to spend 5% of their GDP to progress towards UHC (Mcintyre D., 2014). Nepal's national spending of 2.4% of GDP and lesser allocation at the provincial level shows that Nepal has been investing far less in health as a share of GDP to achieve UHC therefore highlighting that an increment would not be enough without increasing the allocation at the provincial level.

Figure 3.1: Trend in health sector spending as a percentage of GDP

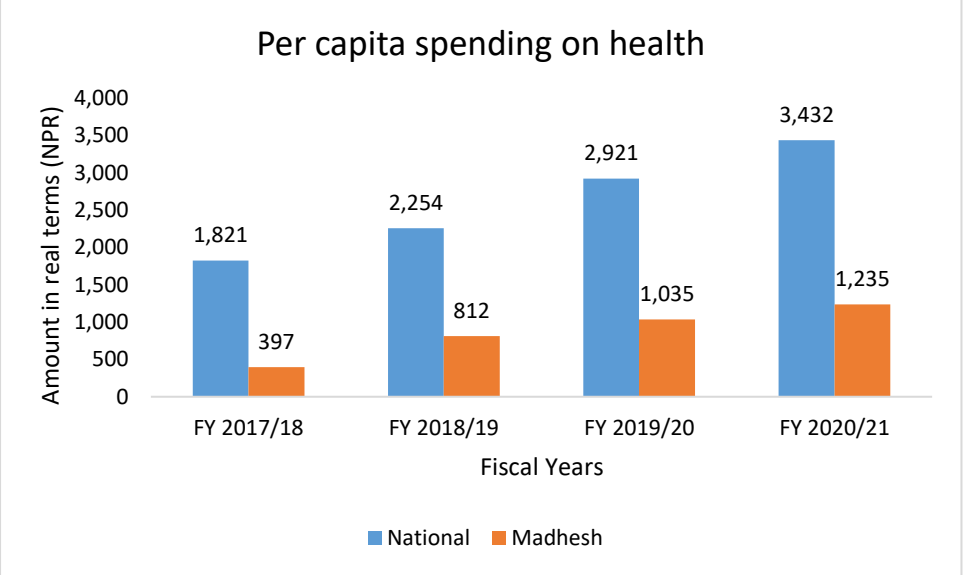


Source: *GDP for FY 2017/18 from Author's estimate based on National GDP and for FY 2018/19–FY 2020/21 from Central Bureau of Statistics*

3.2 Per capita Provincial Spending on Health

The per capita spending in Madhesh Province on health was only NPR 397 in FY 2017/18 which almost doubled (NPR 812) in the next fiscal year and has been increasing constantly. However, there is a huge gap between the national and provincial per capita spending on health. While the national spending was NPR 3,432 in FY 2020/21, it was only NPR 1,235 in the province.

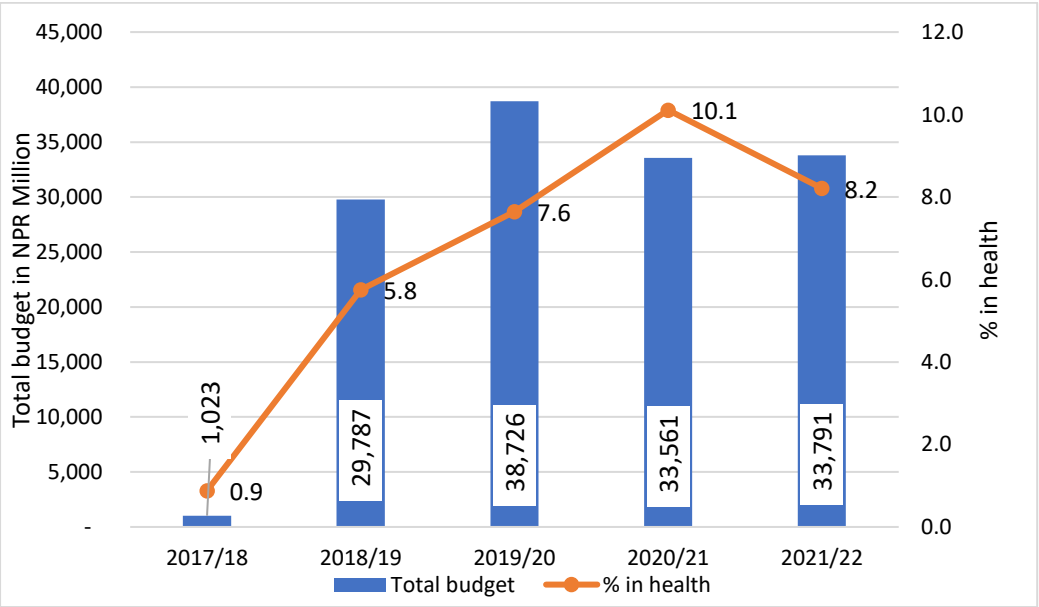
Figure 3.2: Per capita Spending on Health (in real terms)



Source: Red book FY 2017/18-FY 2020/21, Population projection obtained from HMIS

3.3 Share of Health Sector Budget out of Total Budget

Figure 3.3: Trend in the health sector budget allocation as a percentage of total budget



Source: Redbook FY 2017/18-FY 2021/22

Figure 3.3 shows the allocation of the budget in the health sector in Madhesh Province. It excludes the total budget and health budget allocated by the local level. The trend in percentage allocation of budget in the health sector shows that the allocation increased from 0.9% in FY 2017/18 to 10.1% in FY 2020/21. However, it has decreased by two percent coming to 8.2% in FY 2021/22.

CHAPTER 4: ANALYSIS OF FISCAL TRANSFER IN HEALTH

This chapter starts with an analysis of the total health budget allocation and expenditure in Madhesh Province in FY 2019/20 and FY 2020/21 and allocation in FY 2021/22. Following analysis does not provide definitive reasons for trends but does try to elucidate potential reasons for some of the findings.

4.1 Health Sector Budget of Madhesh Province by Organisational Level

The total budget of Madhesh Province has increased from NPR 2,959.3 million in FY 2019/20 to NPR 3,392.8 million in FY 2020/21 and decreased in FY 2021/22. In FY 2019/20, the highest amount of budget was available in MoSD. It sent NPR 224.3 million to the local levels which was reduced to almost a half (NPR 85.5 million) in FY 2020/21 and further reduced to NPR 32 million in FY 2021/22. Hospitals received more than a third of the provincial health budget in FY 2020/21 (NPR 1332.6 million), followed by PHLMC (NPR 849.8 million). Potential reasons for this could be due to COVID-19 treatment in the hospitals, medicines, and supplies procurement. A similar trend has been followed in the budget allocation for FY 2021/22, however, the amount of budget has decreased. Apart from the MoSD, the budget in the health sector had also been directed from other divisions and ministries and transition into a budget also known as ***beyond health***. The highest budgetary contribution was in FY 2020/21 (NPR 173.7 million) as a result of the COVID-19 pandemic and an increased budgetary requirement for its management as no budget had been channelled from beyond health during FY 2019/20.

Table 4.1: Health sector budget and percentage expenditure by organisations

Amount in NPR Million

Organisations	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
MoSD	1,227.5	28	103.0	38	196.1
PHD	102.3	37	203.0	53	158.0
PHLMC	13.7	95	849.8	94	568.6
PHTC	29.3	65	45.3	52	37.6
PPHL	21.2	75	85.4	94	51.2
Health Offices	370.1	47	413.4	82	517.3
Hospitals	871.0	38	1332.6	78	1014.9
Ayurveda	49.9	78	101.1	83	100.2
Local Levels	224.3	0	85.5	96	32.0
Beyond Health	-	-	173.7	60	98.3
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

Only 33% of the total allocated budget was spent in FY 2019/20. This could be due to COVID-19 as many programmes could not be carried out during the pandemic. PHLMC spent 95% of the allocated budget while no expenditure has been reported from the local levels in FY 2019/20. The percentage of expenditure improved in FY 2020/21. 80% of the allocated budget in FY 2020/21 had been absorbed. Meanwhile, the lowest absorption of the allocated budget was from MoSD budget (38%) followed by PHTC (52%) and PHD (53%).

4.2 Health Sector Budget of Madhesh Province by Capital and Recurrent Headings

The total health sector budget of Madhesh Province comprises of conditional and unconditional grants from the FG and internal sources of the province. Details of the health conditional grant activities provided to PGs and LGs can be found at www.mofaga.gov.np. The recurrent budget in the province has gradually decreased since FY 2019/20 while the capital budget increased by more than four folds between FY 2019/20 and FY 2020/21 subsequently decreasing afterwards. The absorption was better for the recurrent budget (34%) in FY 2019/20 whereas it was proven to be better for the capital budget (88%) in FY 2020/21. It is important to note that the conditional grants allocated to SNGs is accounted as a recurrent expense in Redbook.

Table 4.2: Health sector budget and percentage expenditure by capital and recurrent headings

Amount in NPR Million

Budget Type	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Recurrent	2,758.1	34	2,446.9	77	2,194.0
Capital	201.2	28	945.9	88	580.2
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

4.3 Health Sector Budget of Madhesh Province by Programme and Administrative Headings

Table 4.3: Health sector budget and percentage expenditure by programme and administrative headings

Amount in NPR Million

Budget Type	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Administrative	419.5	55	863.7	72	716.7
Programme	2,539.8	30	2,529.1	82	2,057.5
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

As shown in Table 4.3, the programme budget decreased between FY 2019/20 and FY 2021/22 while the administrative budget almost doubled in FY 2020/21 (NPR 863.7 million) and decreased slightly later. The increase could be due to the addition of human resources for the COVID-19 response. The absorption of the health sector budget was the lowest under programme heading in FY 2019/20 (30%) which increased to 82% in FY 2020/21. This could be due to the disruption of various service deliveries due to COVID-19 in FY 2019/20.

4.4 Health Sector Budget of Madhesh Province by Source of Fund

Madhesh Province receives their budget from the FG and also has their own revenue sources. Additionally, it also sends their budget to their LLs in the form of conditional, matching, and special grants. In FY 2019/20, the federal conditional grant was a major source of funding for the province. However, the province started investing more in health in the later years which as a result more than half of the health sector budget was funded by the PG investing 56% in FY 2020/21 and 57% in FY 2021/22. No foreign sources was available in FY 2019/20, but the budget almost increased by three times from NPR 40.8 million in FY 2020/21 to NPR 132 million in FY 2021/22. In regard to the absorption, the highest absorption of the budget in FY 2019/20 was from the provincial source (42%) and the lowest was from the federal unconditional grant (25%). More than a quarter of the federal conditional grant was not

absorbed in FY 2020/21. This could be due to delays in the release of funds and guidelines from the FG.

Table 4.4: Health sector budget and percentage expenditure by source of funds

Amount in NPR Million

Source of Fund	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Federal-total	1,825.7	28	1,465.8	80	1054.1
Conditional	1,265.5	30	716.3	70	811.6
Unconditional	560.2	25	749.6	89	242.5
Provincial source	1,133.6	42	1,886.1	79	1588.1
Foreign source	-	-	40.8	76	132.0
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

4.5 Health Sector Budget of Madhesh Province by Chart of Account

Table 4.5 summarises the disaggregation of the total health budget of Madhesh Province by chart of account. In FY 2019/20, almost half of the total health budget was allocated in programme activities, but it decreased by almost half in the next year coming to a total of NPR 672.6 million. In FY 2020/21, the budget increased considerably in wages and salaries, medicines and capital goods which could be in relation to the COVID-19 response and management as the budget in these headings decreased in the following year. However, it should be noted that the wages and salaries for health workers have not been separated in the system properly and therefore, the budget volume states that it might change if the total salaries and wages allocated to health workers are recorded and reported separately by the province. No budget was allocated as a subsidy for public, financial, and non-financial institutions over the years. Additionally, there is still NPR 32 million as an inter-governmental fiscal transfer in the province which has not been recoded to different economic code in the financial management system.

Table 4.5: Health sector budget and percentage expenditure by chart of account

Amount in NPR Million

Line Item (Economic Code)	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Wages & Salaries	248.5	66	605.6	68	489.3
Support Services	171.1	40	258.1	82	227.4
Capacity Building	12.6	31	27.1	69	33.3
Program Activities	1,258.5	30	672.6	68	944.1
Medicine Purchases	184.3	28	493.6	96	367.2
Social Service Grants and Social Security	739.5	32	32.7	6	100.7
Subsidy for Institutions (Public, Financial, and Non-Financial)	-	-	-	-	-
Inter-governmental Fiscal Transfer	143.7	24	357.2	82	32.0
Capital-Construction	171.6	24	166.8	62	177.3
Capital Goods	29.6	49	779.1	93	402.9
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

In FY 2019/20, the highest expenditure reported was for the budget allocation for wages and salaries at66% while less than a quarter of the budget was allocated towards the inter-governmental fiscal transfer and for capital-construction was spent (24% each). In FY 2020/21, the highest absorption was for the purchase of medicines (96%) followed by capital goods (93%) while less than 10% was absorbed in social service grants and social security (6%).

4.6 Health Sector Budget of Madhesh Province by Chart of Activities

Table 4.6: Health sector budget and percentage expenditure by chart of activities

Amount in NPR Million

Activities	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Office operations & administrative expenses	779.6	52	350.9	73	220.8
Reproductive, maternal, neonatal, child and adolescent health (RMNCAH)	681.4	31	410.4	65	594.1
FCHV & community health programme	164.1	30	34.4	78	36.9
Communicable & Infectious Disease Control including epidemic and disaster management	270.5	10	61.9	56	96.9
Coronavirus Disease (COVID-19) Control	-	-	714.0	90	399.2
Non-Communicable Disease	116.4	29	91.6	89	267.1
Eye Health Care	-	-	-	-	-
Social Health Protection Services	38.5	27	22.4	60	45.2
Laboratory and Diagnostic Services	9.6	30	533.5	80	51.8
Health Education, Information, Research and Surveys	33.2	30	9.2	35	15.1
Ayurveda and Alternative Medicines	39.4	28	153.4	57	571.5
Drug related regulation, purchase & supply	565.2	28	729.3	97	191.9
Physical Infrastructure Development and Improvement	181.1	29	177.3	74	181.2
Other Health Services	-	-	-	-	2.0
Academy and Hospitals	80.3	32	104.3	22	100.5
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

The budget allocated for office operations and administrative expenses, RMNCAH services and drug related regulation, purchase and supply covered almost three quarters of the total health budget in Madhesh Province in FY 2019/20. While in the same fiscal year, no budget allocation for COVID-19 control was reported in PLMBIS/CGAS. This could be due to MoF releasing circulars to halt the spending of the budget in different headings and virement had been done to channel those resources for COVID-19 control and management as it was already towards the end of the fiscal year that the pandemic started. Hence, those expenses

could have been reported in different headings other than COVID-19. The highest absorption of the budget in FY 2019/20 came under the heading 'operations and administrative expenses' (52%) whilst the lowest absorption was 'communicable and infectious disease control including epidemic and disaster management' (10%).

In FY 2020/21, drug related regulation, purchase and supply received the highest amount of the budget followed by COVID-19 control. The percentage of absorption was also the highest for these two headings coming to97% and 90%, in that year. In FY 2021/22, the budget for COVID-19 control reduced by almost half while the budget allocated to Ayurveda and alternative medicine increased drastically from NPR 88 million in FY 2020/21 to NPR 571.5 million in FY 2021/22 which could be due to the growing popularity of Ayurvedic medicine for COVID-19 prevention and management among the public.

4.7 Health Sector Budget of Madhesh Province by NHSS Outcome Indicators

The disaggregation of the health sector in Madhesh Province showed that the highest amount of the budget was allocated to improve the quality of care at the point of delivery in both FY 2019/20 (38%) and FY 2020/21 (45%). No budget was allocated towards the improvement of the sustainability of health sector financing in FY 2019/20 and FY 2021/22. The absorption of the health budget in the province was also the highest in improving quality of care at point-of-delivery (44%). Similarly, the absorption of budget allocated for strengthening decentralised planning and budgeting was the highest in FY 2020/21 (99%), but the amount allocated was very low. However, it has to be noted that the NHSS indicators have not been localised yet and caution has to be taken before concluding the investment of the province in these indicators.

Table 4.7: Health sector budget and percentage expenditure by NHSS outcome indicators

Amount in NPR Million

NHSS Outcome Indicators	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Rebuilt and strengthened health systems: Infrastructure, HRH management, Procurement and Supply chain management	473.2	29	417.9	78	377.2
Improved quality of care at point-of-delivery	1,125.7	44	1,518.8	82	417.8
Equitable utilization of health care services	1,032.2	25	443.1	71	1,221.4
Strengthened decentralized planning and budgeting	0.4	25	0.8	99	-
Improved sector management and governance	172.3	30	171.6	63	149.3
Improved sustainability of health sector financing	-	-	6.0	48	-
Improved healthy lifestyles and environment	100.5	29	90.3	47	158.0
Strengthened management of public health emergencies	15.5	30	707.7	90	409.0

Improved availability and use of evidence in decision-making processes at all levels	39.5	38	36.6	83	41.5
Total	**2,959.3**	**33**	**3,392.8**	**80**	**2,774.2**

Source: PLMBIS, CGAS, Madhesh Province, FY 2019/20-FY 2021/22

To sum up, the analysis on fiscal transfer in health in Madhesh province shows that there isn't a definite trend in the budget allocation over the period of three fiscal years for the majority of the budget categories. The provincial health budget excluding the budget allocated by the LLs within the province has only slightly increased in FY 2020/21 and further decreased in the next fiscal year. Though the budget decreased in the current fiscal year, there are possibilities for changes in the budget volume after adjustment towards the end of the fiscal year as the initial budget has been taken into consideration following this analysis.

CHAPTER 5: HEALTH BUDGET ANALYSIS OF LOCAL LEVEL

This chapter analyses the total health budget of 136 local levels within Madhesh Province in FY 2019/20, 2020/21 and FY 2021/22 comprising of conditional and unconditional grants allocated from the federal and provincial government and their own revenue sources. The total health budget includes all the budget headings that have been categorised as health programmes in SuTRA. However, some of the budget that might have been allocated for COVID-19 response from various funds like disaster management fund have not been included in the study. SuTRA of LLs is the source for all of the budget and expenditure data. It gives both a macro and micro level analysis capturing a complete picture and detailed information on the health budget.

5.1 Health Sector Budget by Types of Local Levels

Table 5.1 shows the total percentage of health sector allocation at the local levels within Madhesh Province. The overall percentage of budget allocation in the health sector had decreased in FY 2020/21 (6.8%) compared to FY 2019/20 (7.9%) whilst subsequently increasing slightly later (7.3%). The lowest percentage of allocation in health in FY 2019/20 was for metropolitan cities (4.1%) while the highest was for rural municipalities (9%). The percentage of allocation increased in FY 2020/21 for metropolitan cities whilst there has been a gradual decline for the rest. In FY 2021/22, it has increased in all aspects of local levels.

Table 5.1: Health sector budget allocation against total budget by types of local levels

Amount in NPR Million

Local levels	FY 2019/20		FY 2020/21		FY 2021/22	
	Total	% In health	Total	% In health	Total	% In health
Metropolitan Cities (n=1)	4,748.9	4.1	3,982.4	4.5	3,557.5	6
Sub-metropolitan Cities (n=3)	4,268.7	6.2	5,336.3	5.4	5,801.4	5.5
Municipalities (n=73)	44,805.6	7.9	52,981.9	6.8	47,984.3	7.3
Rural Municipalities (n=59)	22,206.8	9.0	27,244.1	7.5	26,255.8	7.8
Total	**76,029.9**	**7.9**	**89,544.7**	**6.8**	**83,599.0**	**7.3**

Source: SuTRA, FY 2019/20-2021/22

5.2 Health Sector Budget of LLs by Revenue Sources

The federal conditional grant remains the major source of the health budget at the local level contributing more than three quarters of the total health budget. Less than 2% of the total health budget for local levels has been financed by the PG in the three consecutive years. The budget from the internal source is in a decreasing trend.

Table 5.2: Health sector budget and percentage expenditure of LLs by revenue sources

Amount in NPR Million

Revenue Sources	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Federal Grant	5,139.6	81	5,391.5	87	5,362.5
Conditional	4,551.6	82	4,893.6	88	4,757.5
Unconditional	588.0	71	497.9	78	605.0
Provincial Grant	67.4	51	45.7	64	59.2
Conditional	6.6	8	9.8	39	2.0

Unconditional	60.8	55	35.9	71	57.2
Internal Source	769.9	64	664.4	59	644.1
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

The overall absorption of the health budget has increased from 78% in FY 2019/20 to 84% in FY 2020/21. The absorption has been the lowest for the provincial conditional grant in FY 2019/20 (8%)increasing slightly in FY 2020/21 but remained the lowest (39%). This could have resulted from a delay in the release of funds, guidelines, or financial rules of the province or a lack of skilled human resources at LLs hindering the utilisation of the budget in which this needs to be explored further. In contrast, the absorption of the federal conditional grant in both of the years is higher than the unconditional grant. This could be because majority of the health programmes have always been sent to the LLs by the FG in the form of a conditional grant, as a result , the LLs seem to have developed an understanding that conditional programmes are a necessity, but the implementation of those activities planned by LLs using the unconditional budget is not mandatory.

Also, it has to be noted that the volume of the provincial grant recorded and reported in SuTRA as received from the province versus the recorded and reported by province in PLMBIS and CGAS as provided to LLs don't align in this report. The initial analysis suggests that this could be due to coding errors or a budget adjustment towards the end of the fiscal year, but further studies are required to confirm the definitive reasons and to take necessary actions for their correction in budget volume.

5.3 Health Sector Budget of LLs by Capital and Recurrent Headings

Table 5.3: Health sector budget and percentage expenditure of LLs by capital and recurrent headings

Amount in NPR Million

Budget Type	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Recurrent	5,001.1	81	5,412.3	87	5,477.9
Capital	975.7	62	689.3	62	587.8
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

The amount of the budget allocated to the recurrent heading has increased between FY 2019/20 (NPR 5,001.1 million) and FY 2021/22 (NPR 5,477.9 million) while the amount allocated to the capital heading has consistently declined. This could be because the LLs allocated a greater amount of the capital budget in FY 2019/20 for the construction and management of COVID-19 isolation and quarantine centres. As the infrastructures were already available, the amount of capital budget could have decreased in the subsequent fiscal years. The absorption of the recurrent budget has improved slightly between FY 2019/20 (81%) and FY 2020/21 (87%). However, the absorption of the capital budget remained unchanged.

5.4 Health Sector Budget of Local Levels by Administrative and Programme headings

Table 5.4: Health sector budget and percentage expenditure of LLs by administrative and programme headings

Amount in NPR Million

Budget Type	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Administrative	2,749.0	92	3,122.5	93	3,565.9
Programme	3,227.9	67	2,979.1	74	2,499.9
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

The amount of budget allocated on administrative headings has increased while that in programme headings has decreased over the years. Less than three quarters of the programme budget has been absorbed in both FY 2019/20 (67%) and FY 2020/21 (74%) when more than 90% of the administrative budget was absorbed.

5.5 Health Sector Budget of LLs by Chart of Account

Table 5.5 shows the distribution of the total health budget at the LLs aggregated under major line-item headings. The highest percentage of budget was allocated to wages and salaries in the three years followed by programme activities. Almost half of the health budget (47%) has been allocated to wages and salaries in FY 2021/22. Similar to the provincial level, the wages and salaries for health workers at LLs has not been separated and the budget reported here might change if LLs calculate the budget under this heading separately. In FY 2019/20, the lowest budget absorption was in capacity building and subsidy for public, financial, or non-financial institutions (49% each). In FY 2020/21, the absorption of the capacity building budget improved to 78%.

Table 5.5: Health sector budget and percentage expenditure of LLs by chart of account

Amount in NPR Million

Line Item	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Wages & Salaries	2,498.5	94	2,843.1	94	3,483.0
Support Services	250.4	72	279.4	83	82.9
Capacity Building	27.4	49	21.1	78	120.5
Programme Activities	1,446.8	66	1,748.9	76	1,070.6
Medicine Purchases	304.1	83	263.5	87	375.5
Social Service Grants and Social Security	191.8	75	57.7	84	312.3
Subsidy for Institutions (Public, Financial, and Non-Financial)	104.0	49	68.7	61	23.2
Inter-governmental Fiscal Transfer	178.0	82	130.0	94	10.0
Capital Construction	718.5	65	555.3	60	475.3
Capital Goods	257.2	53	134.0	71	112.5
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

The amount of inter-governmental fiscal transfer at the local levels is in a decreasing trend. However, close to NPR 10 million is not disaggregated from the budget at local levels in

different economic headings. Thus, the budget from the FG and PG received under their respective grant headings need to be further re-coded into corresponding economic headings by the local levels which is yet to be done and are classified as inter-governmental fiscal transfer.

5.6 Health Sector Budget of LLs by Chart of Activities

The table below shows that the budget allocation for office operations and administrative expenses is an increasing trend and occupies more than half of the total health budget. In FY 2019/20 and FY 2020/21, a huge volume of the budget has been allocated at local levels for COVID-19 control which was reduced by almost four times in FY 2021/22 (NPR 126.1 million). On the other hand, the budget allocated for drug related regulation, purchase and supply has doubled between FY 2019/20 and FY 2020/21. No budget has been allocated for hospitals and health care waste management at the LLs for the current fiscal year.

Table 5.6: Health sector budget and percentage expenditure of LLs by chart of activities

Amount in NPR Million

Activities	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Office Operations & Administrative Expenses	3,302.9	91	3,407.9	92	3,632.7
RMNCAH Services	787.2	59	827.7	70	992.5
FCHV & community health programme	165.5	68	165.9	67	204.3
Communicable & Infectious Disease Control including epidemic and disaster management	157.7	70	104.2	72	110.8
Coronavirus Disease (COVID-19) Control	580.9	71	503.7	78	126.1
Non-Communicable Disease	18.4	54	17.6	73	96.2
Eye Health Care	6.5	34	13.3	67	22.9
Social Health Protection Services	21.4	63	13.2	45	13.5
Laboratory and Diagnostic Services	8.0	57	19.3	58	28.3
Health Education, Information, Research and Surveys	37.79	56	41.1	71	39.10
Ayurveda and Alternative Medicines	106.1	87	179.0	91	46.6
Drug related regulation, purchase & supply	246.4	67	403.6	82	502.1
Physical Infrastructure Development and Improvement	527.2	51	397.1	61	249.7
Other Health Services	6.2	40	7.0	83	0.9
Hospitals and health care waste management	4.62	86	0.85	61	-
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

Regarding absorption, more than 90% of the budget was absorbed in the heading 'office operations and administrative expenses' (91%) in FY 2019/20, followed by 'ayurveda and alternative medicines' (87%). In FY 2020/21, the absorption of the budget under ayurveda and

alternative medicines has improved further (91%). The lowest absorption was observed in 'eye health care' in FY 2019/20 and 'social health protection services' (45%) in FY 2020/21.

5.7 Budget allocation and expenditure by NHSS Outcome Indicators

At the LLs, no budget had been allocated for 'strengthening decentralised planning and budgeting' and 'improved the sustainability of health sector financing' in all three consecutive years. Almost 50% of the budget was allocated to 'improve the quality of care at point-of-delivery' in FY 2019/20 and FY 2020/21 which increased to almost 60% in FY 2021/22 with 92% absorption in the former year and 93% absorption in the later. The absorption of the budget was highest for 'improving availability and use of evidence in decision making' in FY 2019/20 which received the lowest amount of the budget. However, caution has to be taken whilst interpreting the findings of this table as NHSS indicators haven't been localised yet and lower or higher budget allocation in any of the headings doesn't mean that some of the indicators have been valued more than others at the LLs.

Table 5.7: Health sector budget allocation and percentage expenditure of LLs by NHSS outcome indicators

Amount in NPR Million

NHSS Outcome Indicators	FY 2019/20		FY 2020/21		FY 2021/22
	Budget	% Exp.	Budget	% Exp.	Budget
Rebuilt and strengthened health systems: Infrastructure, HRH management, Procurement and Supply chain management	48.1	73	29.8	80	16.2
Improved quality of care at point-of-delivery	2,978.0	92	3,161.2	93	3,624.3
Equitable utilisation of health care services	433.3	54	325.1	59	534.2
Strengthened decentralised planning and budgeting	-	-	-	-	-
Improved sector management and governance	254.2	64	254.9	67	275.1
Improved sustainability of health sector financing	-	-	-	-	-
Improved healthy lifestyles and environment	273.7	65	448.6	78	419.5
Strengthened management of public health emergencies	1,989.3	67	1,475.2	76	1,135.2
Improved availability and use of evidence in decision-making processes at all levels	0.2	100	406.8	81	61.4
Total	**5,976.8**	**78**	**6,101.6**	**84**	**6,065.8**

Source: SuTRA, FY 2019/20-FY 2021/22

Therefore, this analysis shows that there has not been much change in the allocation of the budget in the health sector over the years. The federal grant still remains the major source of the health budget and the PG has contributed the lowest. Though the budget in different headings like COVID-19 control, drug procurement and supplies, etc. have increased in FY 2020/21. They also decreased in the current fiscal year indicating that the increase in the

health budget could be the result of COVID-19. Yet, the budget volume in FY 2021/22 might change during budget adjustment in case of increased or decreased budgetary requirement at the LLs.

CHAPTER 6: CONCLUSION AND WAY FORWARD

This chapter provides a summary of the findings in the form of a conclusion and outline the way forward. The way forward included in this chapter may require further discussions with the officials working at the local, provincial, and federal governments. This BA suggests that the priority of health is increasing at the sub-national levels.

6.1 Conclusion

Recent evidence in the UHC suggests that lower- and middle-income countries should spend at least 5%of their GDP on health which is around NPR 9,630 per capita spending. This analysis confirms that the provincial government health spending as a share of GDP is very low (1.4% in FY 2020/21) because the federal government spending is far lower (2.4% in FY 2020/21) than the desired level. However, the per capita health expenditure is an increasing trend. As compared to FY 2017/18, the per capita health expenditure has almost doubled at the national level in FY 2020/21 and increased by around three folds in Madhesh Province in the same time frame. A few of the key contributing factors for this could be the budget allocated for COVID-19 response and management and an additional resource allocation at the sub-national level from their own internal sources in addition to the federal grant. However, the current investment in health is not sufficient to achieve Nepal's commitment for UHC and SDGs by 2030.

The GoN provided NPR 811.6 million to Madhesh Province and NPR 4.8 billion to LLs within the province as a conditional grant through Redbook in FY 2021/22. The trend in percentage of budget allocation in the health sector showed an increased allocation from FY 2017/18 until FY 2020/21. After reaching 10.1% in FY 2020/21, it decreased to 8.2% in FY 2021/22. The percentage of allocation for FY 2021/22 might change towards the end of the year if the additional budget is required and virement is done to meet the needs created by COVID-19 or any other emergencies. At the provincial level, the volume of budget has slightly increased in FY 2020/21 and decreased afterwards. Among the provincial spending units, PHD has only received 3-6% of the total health budget throughout the years though it is the major health programmes' implementing entity at the provincial level. In the LLs within the province, the health sector budget allocation as a percentage of the total budget has had minimal change over the years. The federal conditional grant remains the major source of health budget contributing to more than three quarters of the total health budget.

The highest amount of the budget for the province has been allocated to programme activities throughout the years. Similarly, there has been considerable increase in the budget for wages and salaries, purchase of medicines and capital goods which is probably due to an increase of human resources, medicines and requirement of buildings and equipment to manage COVID-19 subsequently decreasing in the following year. The disaggregation of the provincial health budget by chart of activities shows that almost three quarters of the total health budget has been allocated for office operations and administrative expenses, RMNCAH services and drug related regulation, purchase, and supply in FY 2019/20. There has been a remarkable increment in the budget for ayurveda and alternative medicine in FY 2021/22 (NPR 571.5 million) from 88 million in FY 2020/21, possibly due to its increased popularity during the second wave of the COVID-19 pandemic. Similarly, the highest budget allocation has been in wages and salaries at the LLs followed by programme activities since FY 2019/20. Disaggregation of the budget at the LL by chart of activities shows that more than half of the

health budget has been allocated for office operations and administrative expenses over the years. At both the provincial level and LLs within the province, the undivided budget under the heading inter-governmental fiscal transfer has been decreasing. Yet, NPR 32 million at the provincial level and NPR 10 million at the LL remain undivided in FY 2021/22.

While only 33% of the total health budget had been absorbed in FY 2019/20, more than three quarters was absorbed by the province in FY 2020/21. The lowest absorption observed was for the federal conditional grant (74%). At the LLs, the absorption increased from 78% in FY 2019/20 to 84% in FY 2020/21. Whilst the lowest was for the provincial conditional grant in both the years (8% in FY 2019/20 and 39% in FY 2020/21. The initial analysis suggests that this could be due to a delay in the release of funds, guidelines, or financial rules from the province or a lack of skilled human resources at the LLs limiting the utilisation of funds.

6.2 Way Forward

This analysis has brought up some important issues that need to be addressed by the three spheres of the government. The current challenge in the federalised context is to sustain the progress made in health sector at the sub-national levels and improve the health-related indicators subsequently. Evidence based AWPBs at the FG, PG as well as LLs needs to be harmonised through a comprehensive policy framework that is acceptable for all tiers of government. This is particularly important due to constitutional provision of 'concurrent rights' to all governments. The following points comprise of some specific recommendations for the way forward:

a. Ensure the allocation of at least 10% of the total budget in the health sector every year by SNGs.
b. The PG should consider the fact that LLs can contribute additional resources for health from their revenue sources but not all LLs can generate the same amount of revenue. Hence, it would be important for the province to plan and allocate the provincial grants to LLs accordingly.
c. Improve the capacity to record and report budgetary information at SNGs.
d. The PG need to find out the definitive reasons for low absorption of provincial grants at the LLs and take necessary actions to address them.
e. Align the health polices and strategies at all spheres of government through an umbrella policy and strategic framework developed by the FG.
f. Ensure the coherence of legal provisions across all spheres of government.
g. Initiate the discussion for a conditional grant transition plan for the province by the FG and PG.
h. The FG needs to formulate a costed health financing strategy applicable to all spheres of government. This would enable the GoN to develop a roadmap for securing at least USD 86 per capita for improving access to primary care or to secure 10% of the total budget for the health sector and encourage the PGs and LLs to increase their investment in health-PG needs to support the implementation.
i. Support the formulation of a national guideline to reduce the conditional grants and increase the health budget allocation through equalisation, matching, special grants, and local revenue.
j. SNGs to be capacitated to prepare proposals to receive special and matching grants from the FG.
k. The inter-governmental fiscal transfer needs to be disaggregated into defined budget headings for improving public transparency of funds at both PGs and LLs.

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