

# Bridging the Gap: making Nepal's health insurance financially sustainable

Seshananda Sanjel<sup>1</sup>,<sup>1</sup> Bharat Kafle<sup>1</sup>

<sup>1</sup>School of Public Health, Karnali Academy of Health Sciences, Jumla, Karnali Province, Nepal

## ABSTRACT

Sustainable health financing is essential for building a resilient health system that ensures equitable access to quality healthcare without financial hardship. In Nepal, the Government introduced the National Health Insurance Program (NHIP) in 2017 under the Health Insurance Act as a major step toward achieving Universal Health Coverage (UHC). However, the country faces significant challenges due to demographic and epidemiological transitions, including population aging, rising non-communicable diseases, and persistent infectious diseases, which increase healthcare demand and costs. Public health expenditure remains below 2% of GDP, far below the recommended benchmark for UHC, while heavy reliance on out-of-pocket payments and low NHIP enrollment, particularly among informal-sector workers, weaken financial protection. Additional barriers include fragmented financing schemes, weak governance, inefficient budget allocation, and dependence on declining donor support. The National Health Financing Strategy (2080–2090) aims to address these gaps by expanding fiscal space, increasing domestic resource mobilization, reducing out-of-pocket expenditure, and strengthening risk pooling. Progressive taxation, sin taxes, public–private partnerships, strategic purchasing, and improved governance are critical reforms. A comprehensive, evidence-based financing approach is necessary for Nepal to achieve equitable, efficient, and sustainable UHC.

**Keywords:** Sustainability, Health financing, Universal health coverage, Health insurance

## INTRODUCTION

Sustainable health financing is a cornerstone of a resilient health system, ensuring that adequate, predictable, and equitable resources are available to meet the population's health needs. It encompasses not only the mobilization of sufficient funds but also the efficient allocation and utilization of those funds to maximize health outcomes.<sup>1</sup> A well-functioning financing system reduces out-of-pocket (OOP) expenditures, protects households from catastrophic health spending, and promotes equitable access to essential health services.<sup>2</sup> In low- and middle-income countries like Nepal, achieving sustainable health financing is both a policy priority and a structural challenge.<sup>1</sup> In this context, the Government of Nepal (GoN) introduced the National Health Insurance Program (NHIP) in 2017 under the Health Insurance Act as a key policy instrument to advance Universal Health Coverage (UHC).<sup>3</sup> UHC aims to ensure that all individuals and communities receive the health services they need, ranging from preventive to curative and rehabilitative care, without suffering financial hardship.<sup>4</sup> The National Health Policy further reinforces this objective by promoting mandatory and expanded health insurance coverage to reduce financial barriers and improve access to specialized services. Together, these reforms signal Nepal's commitment to transitioning from out-of-pocket dominated financing toward a more pooled and prepaid system.<sup>5</sup>

### Nepal's status

However, Nepal is currently undergoing significant demographic and epidemiological transitions, characterized by an aging population, a

rising burden of non-communicable diseases, and persistent infectious disease challenges. These shifts are expected to substantially increase healthcare demand and associated costs.<sup>1</sup> Despite these growing needs, Nepal's public health expenditure remains below 2% of GDP, considerably lower than the global benchmark of approximately 5% recommended for progressing toward UHC. This mismatch between resource needs and available financing raises critical concerns about the long-term sustainability of the health system.<sup>1</sup> The current health financing landscape in Nepal is constrained by multiple interrelated challenges. Public investment in health remains limited, while the system continues to rely heavily on insurance premiums and out-of-pocket payments.<sup>6</sup> Enrollment in the NHIP is particularly low among informal sector populations, who constitute a large share of the workforce, thereby weakening risk pooling and financial protection. Additionally, the presence of fragmented social protection schemes reduces efficiency and creates duplication of efforts.<sup>7</sup> Governance and institutional challenges, such as inefficiencies in budget allocation across federal, provincial, and local levels, limited absorption capacity at subnational levels, and weak implementation of the Basic Health Care Services (BHCS) package, further hinder system performance. Moreover, Nepal's continued dependence on external donor funding, coupled with shrinking development assistance and limited fiscal space, exacerbates financial vulnerability.<sup>1,7,8</sup> Recognizing these challenges, the Government of Nepal has undertaken several policy reforms to strengthen health financing. Notably, the introduction of a co-payment mechanism aims to balance financial sustainability with service utilization, while the National Health Financing Strategy (NHFS) 2080–2090 provides a comprehensive roadmap for reform.<sup>9–11</sup> The NHFS outlines ambitious targets, including achieving 100% UHC by 2090, increasing per capita health expenditure from USD 20 to USD 86, improving budget execution rates from 80% to 95%, reducing OOP expenditure from 57% to 25%, and lowering catastrophic health expenditure from 10% to 2%. It also emphasizes improving the UHC service coverage index for essential health services.<sup>10</sup> Achieving these targets requires a coherent and multi-pronged strategy centered on expanding fiscal space for health.<sup>10</sup> Domestic resource mobilization should serve as the primary source of financing, supported by progressive taxation and the introduction or expansion of health-related "sin taxes" on products such as tobacco, alcohol, and sugary beverages.<sup>7</sup> Additional financing streams, including health insurance premiums, international assistance, and private

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Corresponding Author:  
Prof. Dr. Seshananda Sanjel  
Email: [seshanandasanjel24@gmail.com](mailto:seshanandasanjel24@gmail.com)

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sector contributions through corporate social responsibility, should be strategically integrated into a pooled financing framework.<sup>10</sup> The commitment to allocate at least 10% of government budgets to health across all levels of government is a critical step toward increasing public investment. Furthermore, promoting public-private partnerships can enhance the efficiency of service delivery and leverage additional resources.<sup>10</sup>

#### Position of Nepal's health insurance in the current federal system

Nepal's federal governance structure presents both opportunities and challenges for health financing. On one hand, decentralization enables provincial and local governments to mobilize resources and tailor health investments to local needs.<sup>1,10</sup> On the other hand, disparities in fiscal capacity and technical expertise may lead to uneven implementation. Strengthening governance mechanisms is therefore essential.<sup>1,7,10</sup> This includes prioritizing health programs based on cost-effectiveness and cost-benefit analyses, adopting performance based financing arrangements, and improving procurement efficiency through mechanisms such as centralized bidding combined with decentralized implementation. Rational planning and distribution of health facilities based on population needs, geographic accessibility, and disease burden are equally important.<sup>1,7,10</sup> Resource pooling remains a critical area for reform. Harmonizing fragmented social security schemes and integrating them into a unified financing framework can improve efficiency, reduce administrative costs, and enhance equity.<sup>10,12</sup> At the same time, strengthening risk pooling mechanisms across all levels of government is necessary to ensure adequate financial protection and cross-subsidization between population groups.<sup>10</sup> At the operational level, enhancing the capacity of provincial and local governments to generate revenue, formulate budgets, and manage financial resources is imperative.<sup>13</sup> Developing interoperable and transparent financial management information systems will enable better tracking of expenditures, monitoring of performance, and evidence-based decision-making.<sup>14</sup> As external donor support is expected to decline in the coming years, strengthening domestic resource mobilization will become increasingly critical to maintaining system sustainability.<sup>7</sup> In addition, achieving UHC in Nepal will depend on improving purchasing mechanisms within the health system.<sup>10</sup> Transitioning from passive to strategic purchasing where resources are allocated based on performance, quality, and population needs can significantly enhance efficiency and value for money. Ensuring mandatory enrollment in the NHIP, particularly among informal sector populations, will be crucial for expanding the risk pool and ensuring financial sustainability. Integrating various social health protection programs, such as free healthcare services, maternal health programs, and insurance schemes, will further reduce fragmentation and improve service delivery.<sup>7,10</sup>

#### International status

International experiences offer valuable lessons for Nepal. Countries that have successfully achieved UHC have typically adopted mixed financing models that combine general taxation, mandatory health insurance, and regulated cost-sharing mechanisms. These approaches enhance financial sustainability while ensuring equity in access to care. Adapting such models to Nepal's socio-economic and institutional context can strengthen the resilience of its health system.<sup>1,14,15</sup>

#### CONCLUSION

In conclusion, bridging the health financing gap in Nepal requires a strategic and sustained commitment to reform. Increasing public investment in health, reducing reliance on external aid, and expanding domestic resource mobilization are fundamental priorities. Strengthening governance, improving efficiency, enhancing risk pooling, and adopting strategic purchasing mechanisms will be essential to optimizing resource use. Institutional reforms to streamline organizational structures, minimize operational costs, and strengthen monitoring and evaluation systems will further enhance accountability and performance. By embracing a comprehensive and evidence-based approach, Nepal can move decisively toward achieving equitable, efficient, and financially sustainable Universal Health Coverage.

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