

Session 2: Health Financing Function 1 Resource mobilization

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In this session

- ▶▶ The health financing functions
- ▶▶ Source of funding
- ▶▶ Fiscal space and fiscal space for health
- ▶▶ Potential sources of fiscal space for health
- ▶▶ Why resource mobilization matters for UHC



The health financing functions

- ▶▶ Resource mobilization
- ▶▶ Pooling of resources/risks
- ▶▶ Purchasing of services



The health financing functions

▶▶ Resource mobilization

- ❖ What are the sources of funding for health services?
- ❖ How is the funding being collected?
- ❖ Who collects the funds?



The health financing functions

▶▶ Resource mobilization

▶▶ Pooling of resources/risks

- ❖ How can we make household spending on health care more predictable?
- ❖ How can we protect households from having to pay the full cost of care out-of-pocket in the event of illness?



The health financing functions

- ▶▶ Resource mobilization
- ▶▶ Pooling of resources/risks
- ▶▶ Purchasing of services
 - ❖ How should money for health be allocated?
 - ❖ How should providers of health services be paid?
 - ❖ Who should pay for the services?



The health financing functions

- ▶▶ Resource mobilization
- ▶▶ Pooling of resources/risks
- ▶▶ Purchasing of services

Putting things into perspective

Global Health Spending

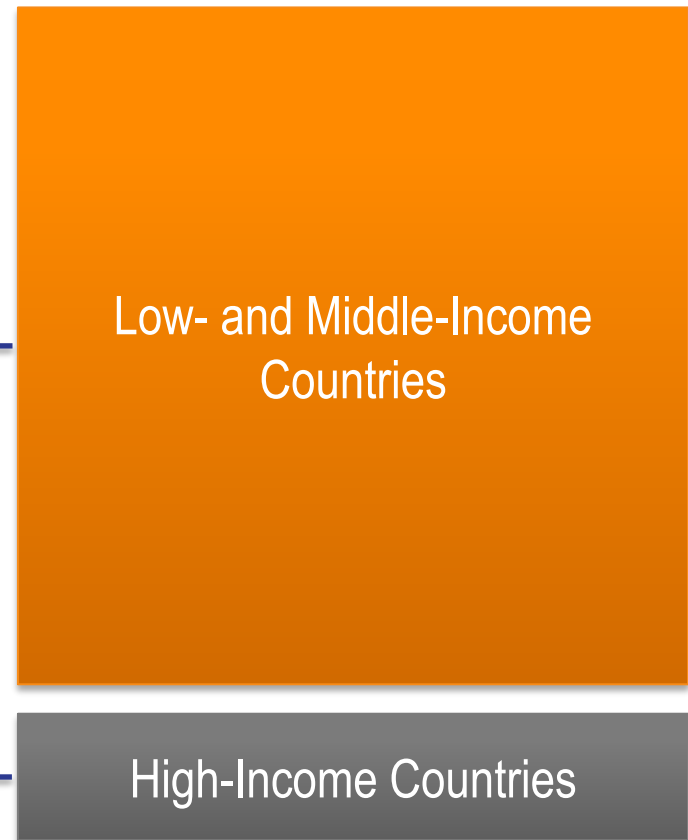
Low- and Middle-Income Countries

High-Income Countries

Global Disease Burden

Low- and Middle-Income Countries

High-Income Countries



Putting things into perspective

Global Health Spending

Low- and Middle-Income
Countries

Global Disease Burden

“Revenue collection in developing countries is
the art of the possible, not the optimal”

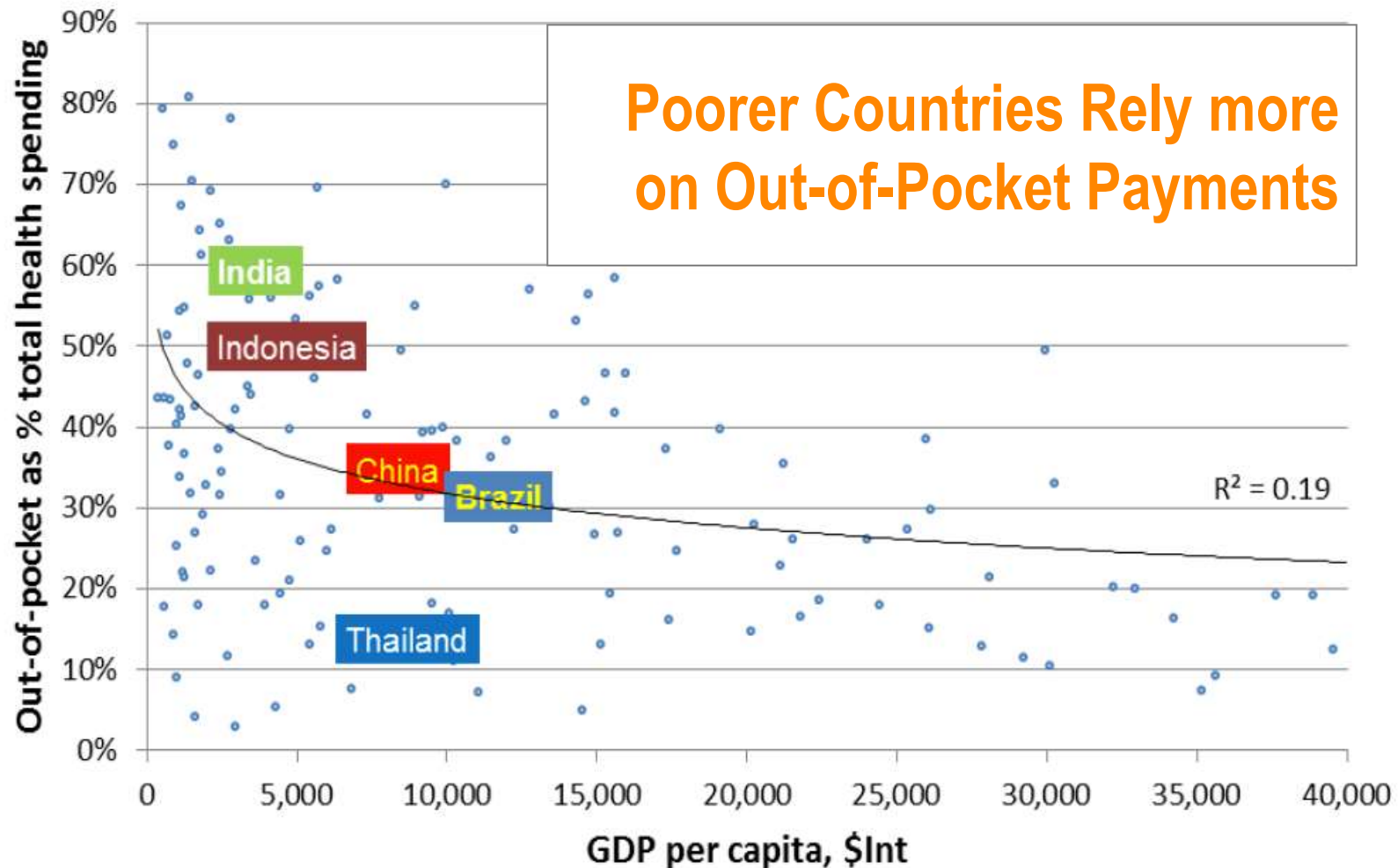
Gottret and Schieber, 2006

High-Income Countries

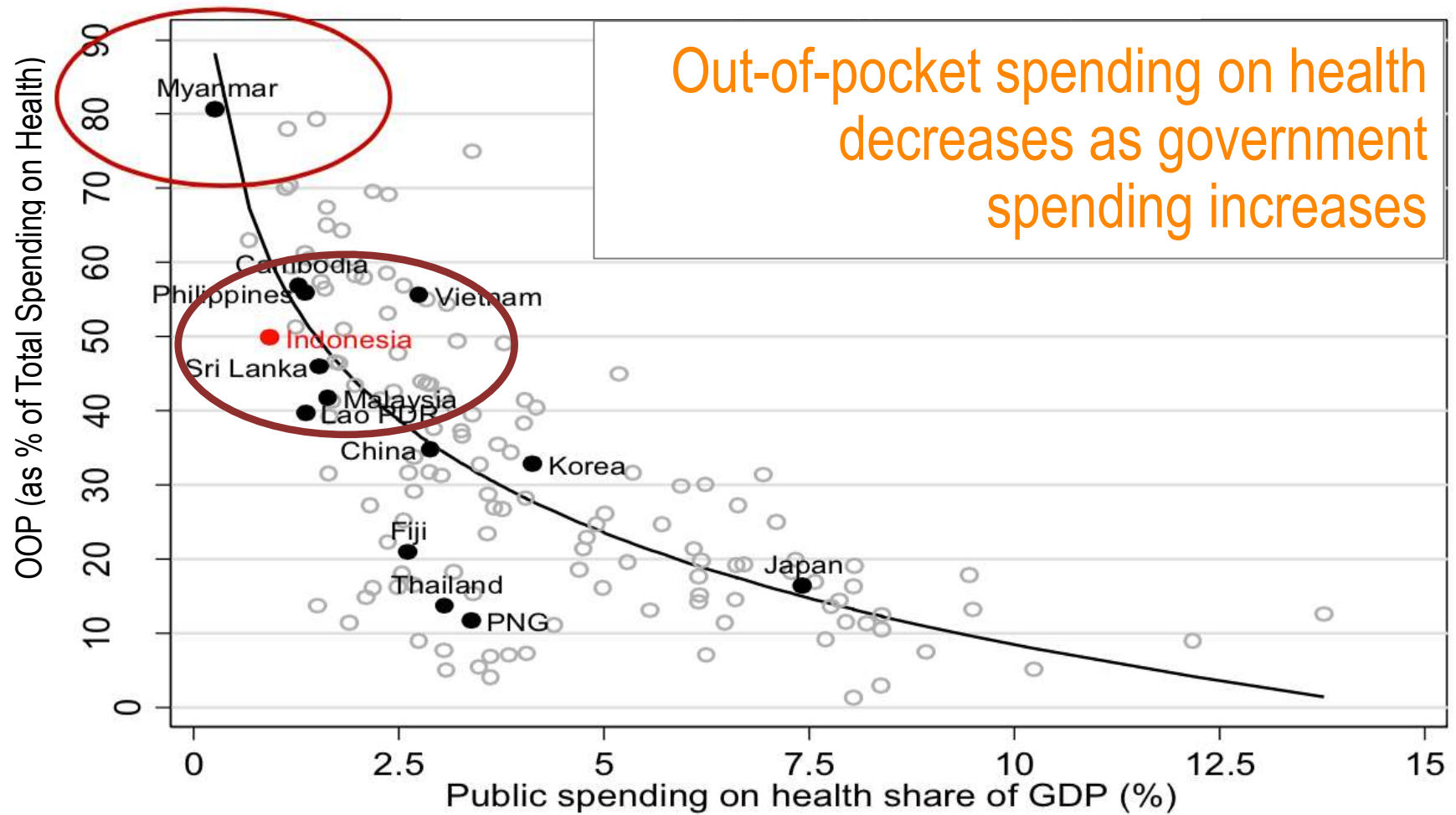


Sources of funding

- ▶▶ **Individuals and household**
 - ❖ Taxes (direct + indirect)
 - ❖ Mandatory contributions
 - ❖ Insurance premiums
 - ❖ Out-of-pocket payments
- ▶▶ **Private firms / employers**
 - ❖ Taxes (direct + indirect)
 - ❖ Mandatory contributions
 - ❖ Insurance premiums
- ▶▶ **State-owned enterprises**
 - ❖ Profits
- ▶▶ **Development partners**
 - ❖ Grants
 - ❖ Loans
 - ❖ In-kind donations



Source: Joe Kutzin; WHO estimates for 2011, countries with population > 600,000



Source: Joe Kutzin; WHO estimates for 2011



Fiscal space

“... room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy...”

Heller, 2005



How can a government create fiscal space?

- ▶▶ Through tax measures or by strengthening tax administration
- ▶▶ Cutting lower-priority expenditures to make room for more desirable ones
- ▶▶ Borrowing resources, from either domestic or external sources
- ▶▶ Getting the central bank to print money to be lent to the government
- ▶▶ Receiving grants from outside sources



Fiscal space for health

Availability of budgetary room for increasing government spending **for health** without jeopardizing macroeconomic and fiscal stability

Government spending on health

$$\frac{\text{Gov't health spending}}{\text{GDP}} = \frac{\text{Total gov't spending}}{\text{GDP}} \times \frac{\text{Gov't health spending}}{\text{Total gov't spending}}$$

↑ Government health spending as share of the economy

↑ Fiscal context

↑ Public policy priorities



Revenue collection

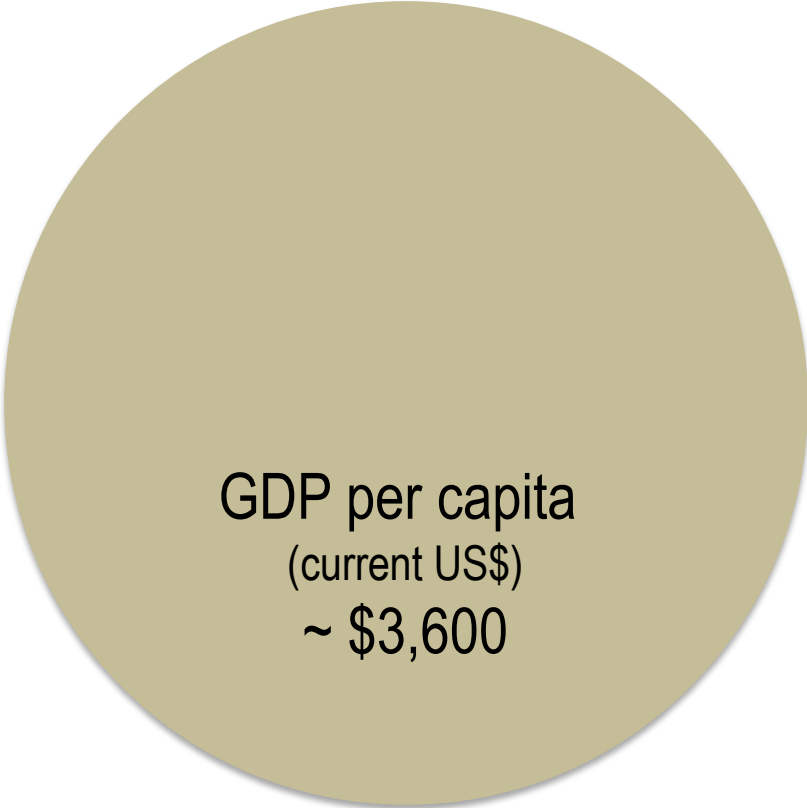
Revenue-raising capacity of a country increases as its income increases, as a result of:

- ❖ Greater formalization of the economy
- ❖ Greater ability of individuals and firms to pay
- ❖ Better tax administration

% of GDP collected as government revenues	
Low-income countries	~14%
Lower middle-income countries	~19%
Upper middle-income countries	~22%
High-income countries	~31%


Example: a country with a per capita GDP of \$3,600 can collect around \$680 per capita (19% of GDP) for all public expenditure needs, including defense, roads, airports, electricity, sewage systems, pensions, education, health and water

Size of the economy



GDP per capita
(current US\$)
~ \$3,600

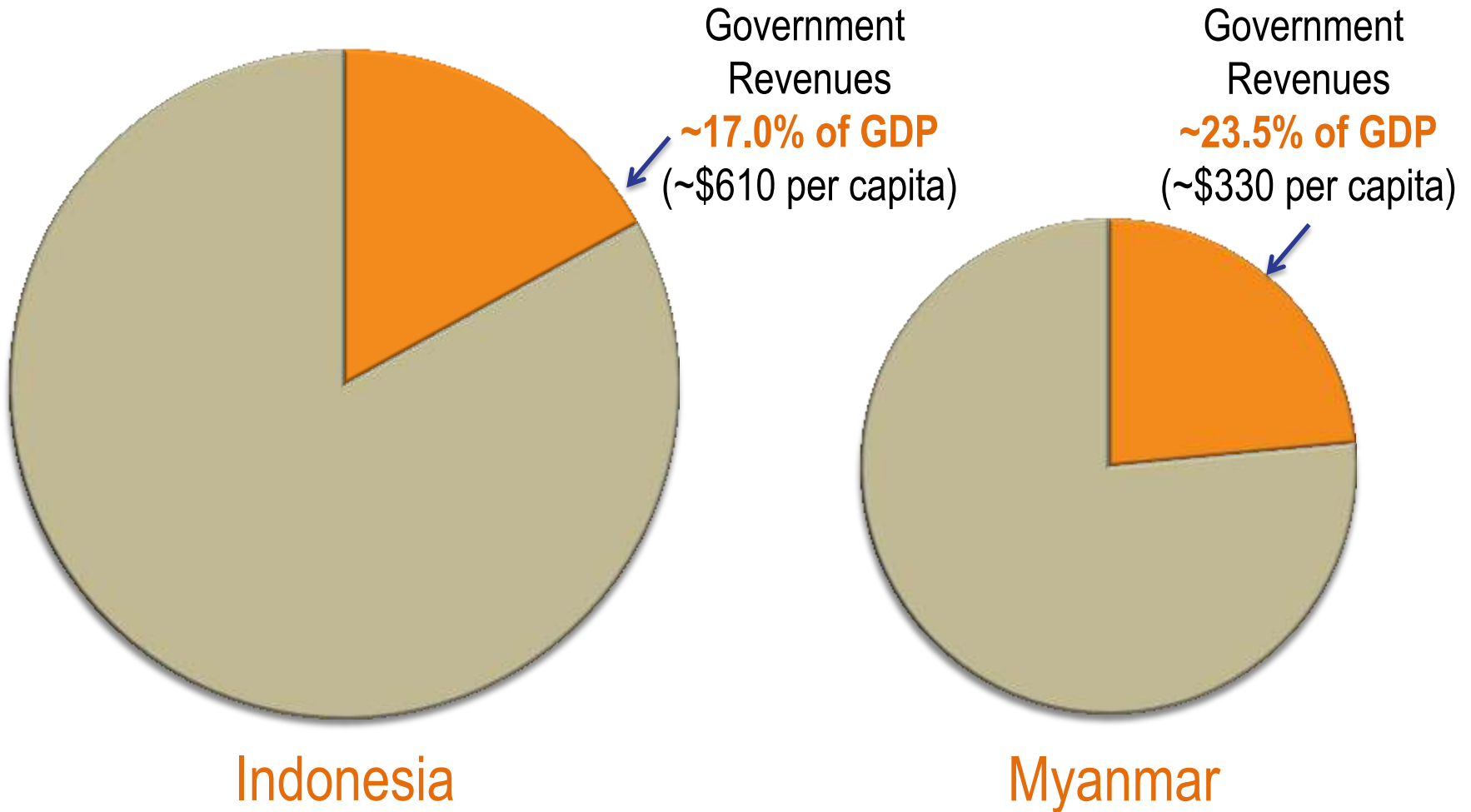
Indonesia



GDP per capita
(current US\$)
~ \$1,400

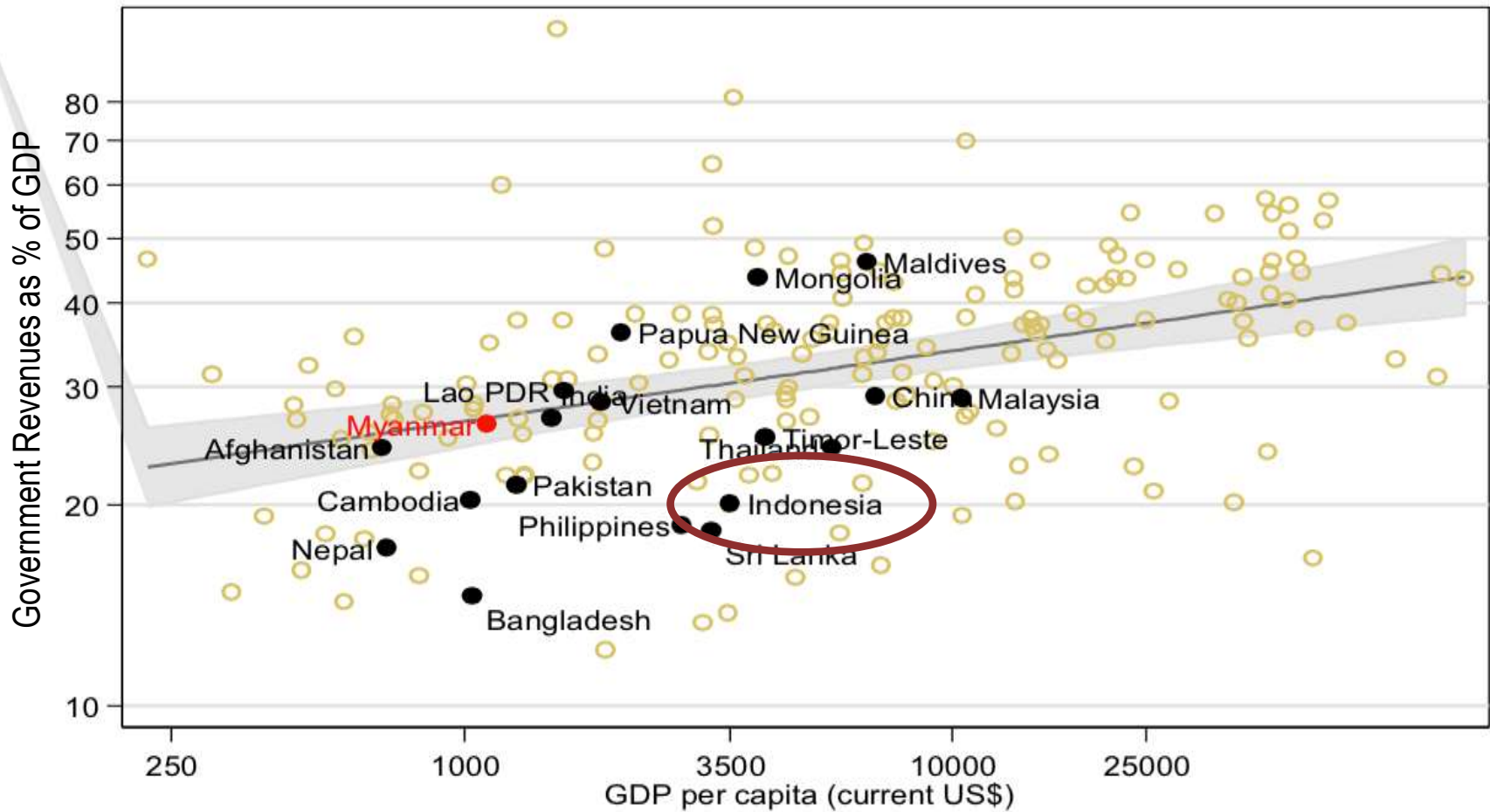
Myanmar

Fiscal space



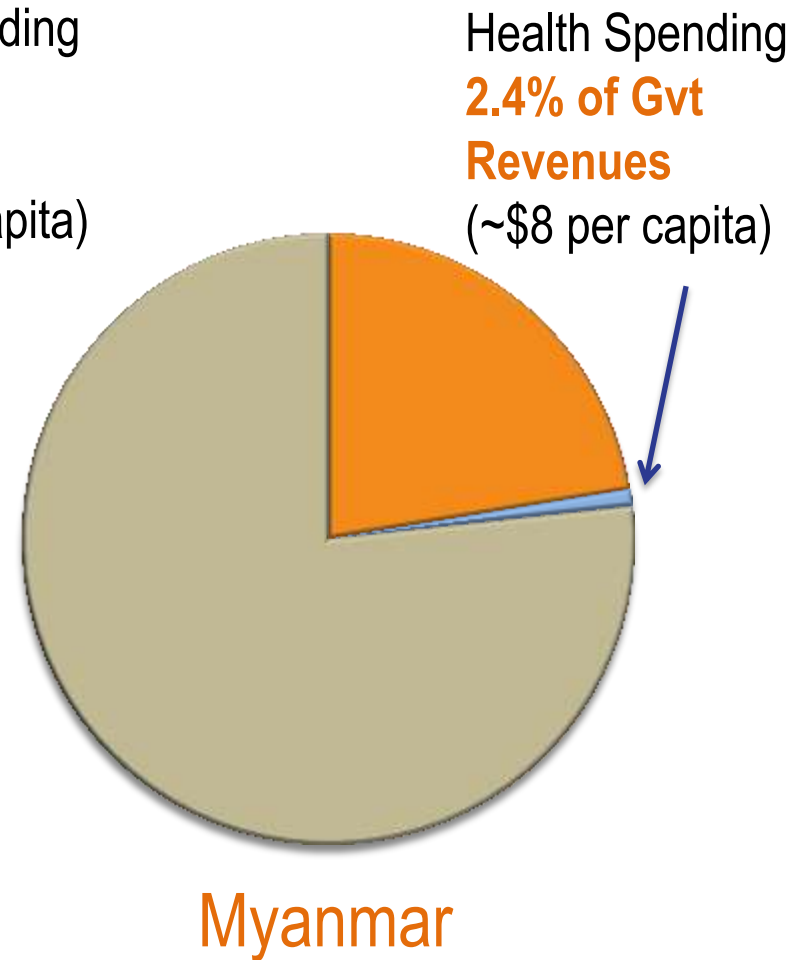
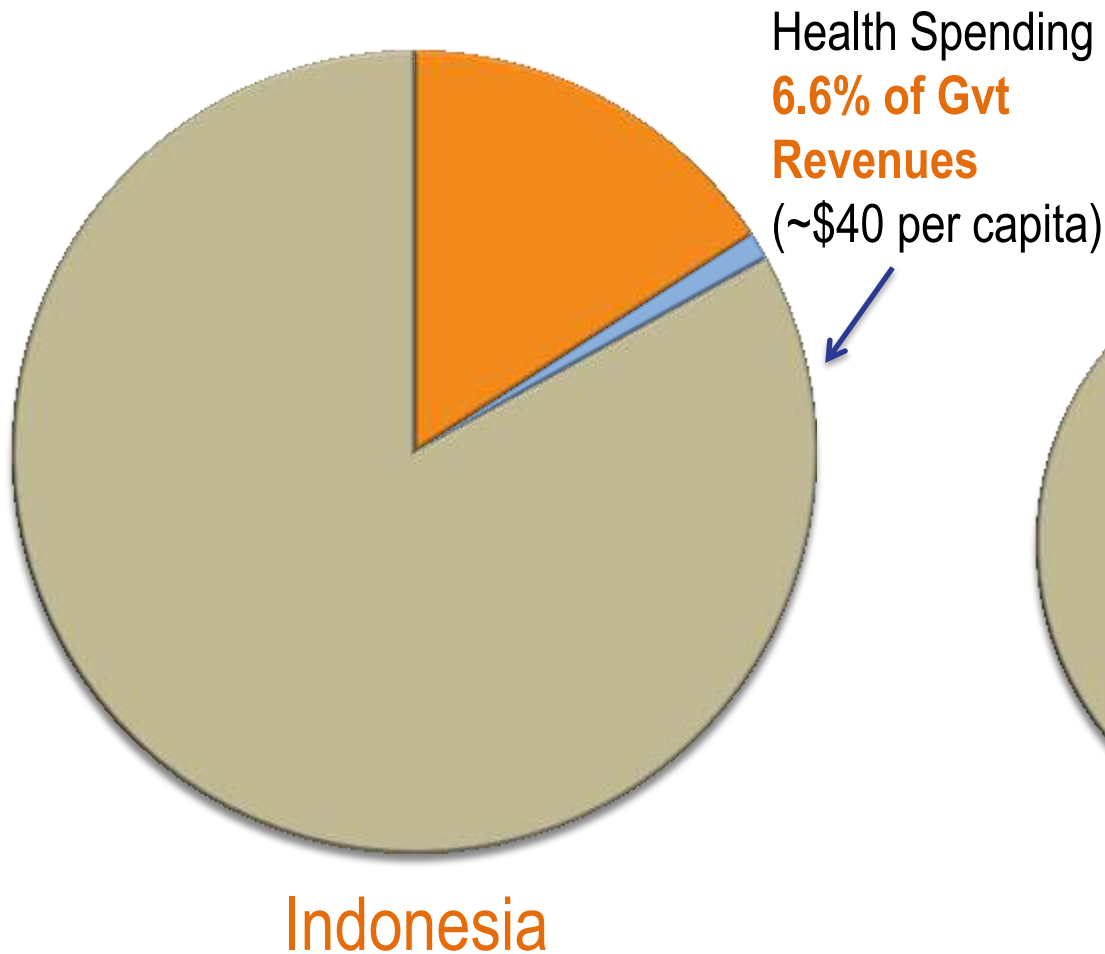
Source: World Bank WDI and IMF (2014)

Fiscal space

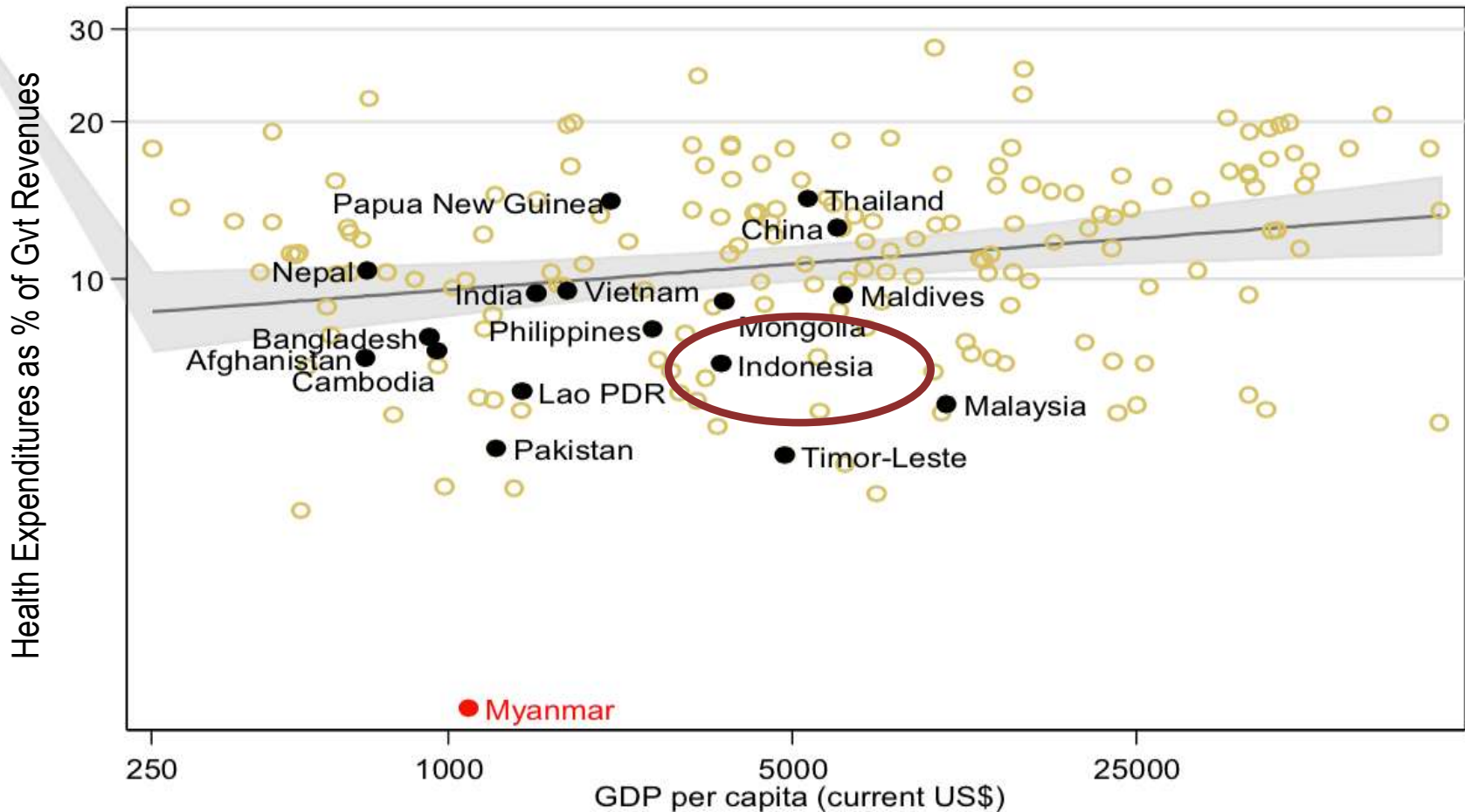


Sources: World Development Indicators & WHO, 2014
Note: Both axis log scale

Government spending on Health



Government spending on Health



Sources: World Development Indicators & WHO, 2014
NOTE: x-axis log scale



Potential sources of fiscal space for health

- ▶▶ **Conducive macroeconomic and fiscal conditions**
Economic growth and increases in government revenue
- ▶▶ **Priority in the budget**
Reallocating budget priorities
- ▶▶ **Health sector-specific resources**
Earmarked taxes, “innovative” financing sources
- ▶▶ **Development assistance for health**
Health sector-specific grants or loans
- ▶▶ **Efficiency gains**
Making better use of existing resources



Earmarked taxes

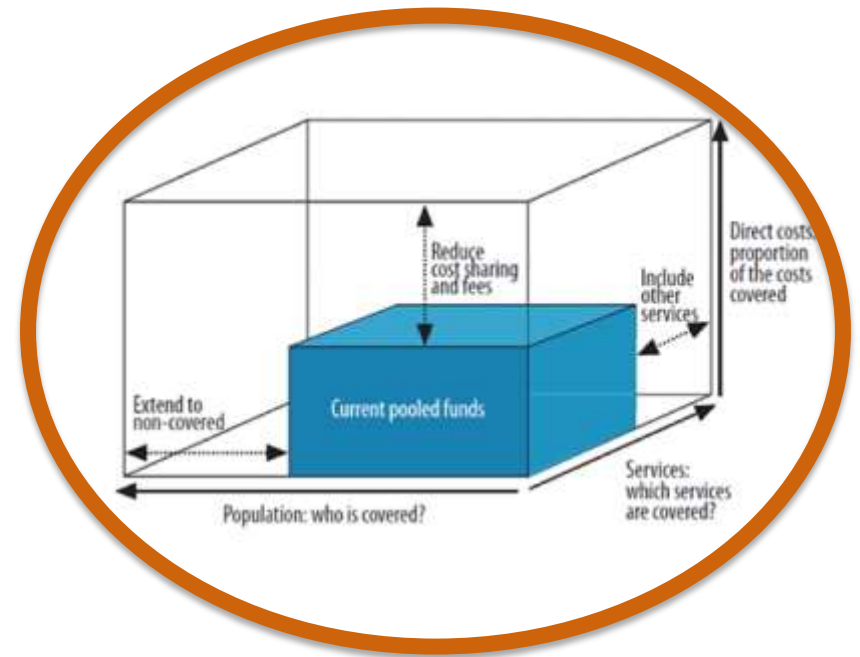
Often criticized from a public finance perspective, yet a popular option

- ▶▶ **Sin taxes** (e.g. on tobacco) to fund health promotion
- ▶▶ **% of VAT** earmarked for health insurance
- ▶▶ **Revenues from Hydroelectric Power Plants** set aside for Basic Health Services
- ▶▶ **Extraction Wealth Fund** for health
- ▶▶ Earmarked tax on **mobile phones or telecommunications**
- ▶▶ **Lotteries** earmarked for health



Why resource mobilization matters for UHC

It matters for all dimension
expanding coverage in all three





Resource mobilization to achieve UHC goals

Examples of the potential role of resource mobilization

- ▶▶ Expanding the **population** covered
 - ❖ Government resources are needed to expand coverage to the different population groups, especially to the poor and vulnerable, but also to the informal (non-poor) sector
- ▶▶ Expanding the **services** covered
 - ❖ What a country can afford in terms of services covered (i.e. what goes into the benefit package) depends on its fiscal space for health
 - ❖ Ensuring 'effective coverage' requires investments in service readiness
- ▶▶ Increasing the share of the **direct cost** covered
 - ❖ How resources are mobilized will determine the degree of progressivity of the system and therefore its equity (the extent to which people contribute according to their ability to pay)



BUT

Efficiency is equally important

Countries cannot simply spend their way to UHC

- ▶ **Strategic purchasing** plays a central role
(essential to develop the skills and systems needed for this)
- ▶ **Accountability** needs to be strengthened at every level of the system



Thank you

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