USAID
FROM THE AMERICAN PEOPLE

Health Finance & Governance
Expanding Access. Improving Health.

Raising revenue for health

Revenue generation

June 2016

Dr. Elaine Baruwa

Abt Associates Inc.
In collaboration with:
Avenir Health | Broad Branch Associates | Development Alternatives Inc. (DAI) | Johns Hopkins Bloomberg School of Public Health (JHSPH) | Results for Development Institute (R4D) | RTI International | Training Resources Group, Inc. (TRG)

Mobilising resources: Government & Others

Fiscal space for health

- Reprioritization of expenditures in the public sector
- Maximization of efficiency in the allocation of public resources
- Macro-economic growth and stability
- Sector specific foreign aid (on-budget)
- Government tax base and tax effort (indirect and direct; general and earmarked)

Revenue generation for health

- Out-of-pocket payment
- Prepayment models including through health insurance
- Sector specific foreign aid (off-budget)

What are we doing here ….

- What is “prepayment” and how does increasing its role in health financing support the goal of improving equity in the health system?
- What is out-of-pocket spending and why is reliance on it adverse to Universal Health Coverage?
- What criteria should we use to understand the options for revenue generation in the health sector?
- What role can government play to make revenue generation for health stable and sustainable?

What is “prepayment” and how does increasing its role in health financing support the goal of improving equity in the health system?

“Prepayment” delinks payment from health need and potentially linking it instead to income

“Prepayments” can take the form of:

- Premiums to private or public insurance
- Taxes paid to government that are then used to finance health
- And *are planned*

Prepayment’s opposite is “out-of-pocket spending (OOP)” which:

- Occurs *at the time of need* by households paying directly to providers.
- Is the most regressive and harmful form of payment

What criteria should we use to understand the options for revenue generation in the health sector?

The assessment criteria for thinking about all revenue generation options

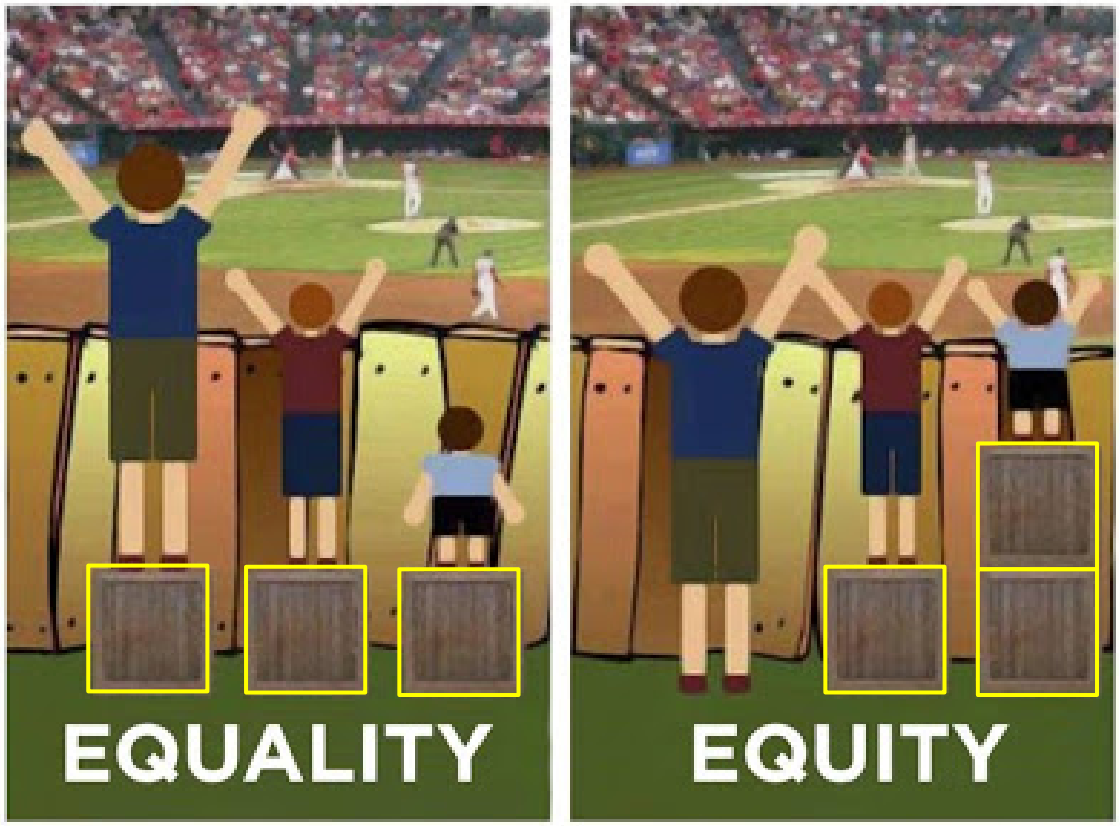
- Long term effectiveness in generating additional revenue
- Efficiency in revenue collection for the government
- Impact on national-level economic efficiency, productivity, and competitiveness [do no harm, or as little as possible]
- Overall equity of a payment system [which also depends on how revenue is used]

How would you define equity in your own words?

How would you define equality in your own words?

How would you distinguish between the two?

What is out-of-pocket spending and why is reliance on it antithetical to Universal Health Coverage?



Regressive/Progressive

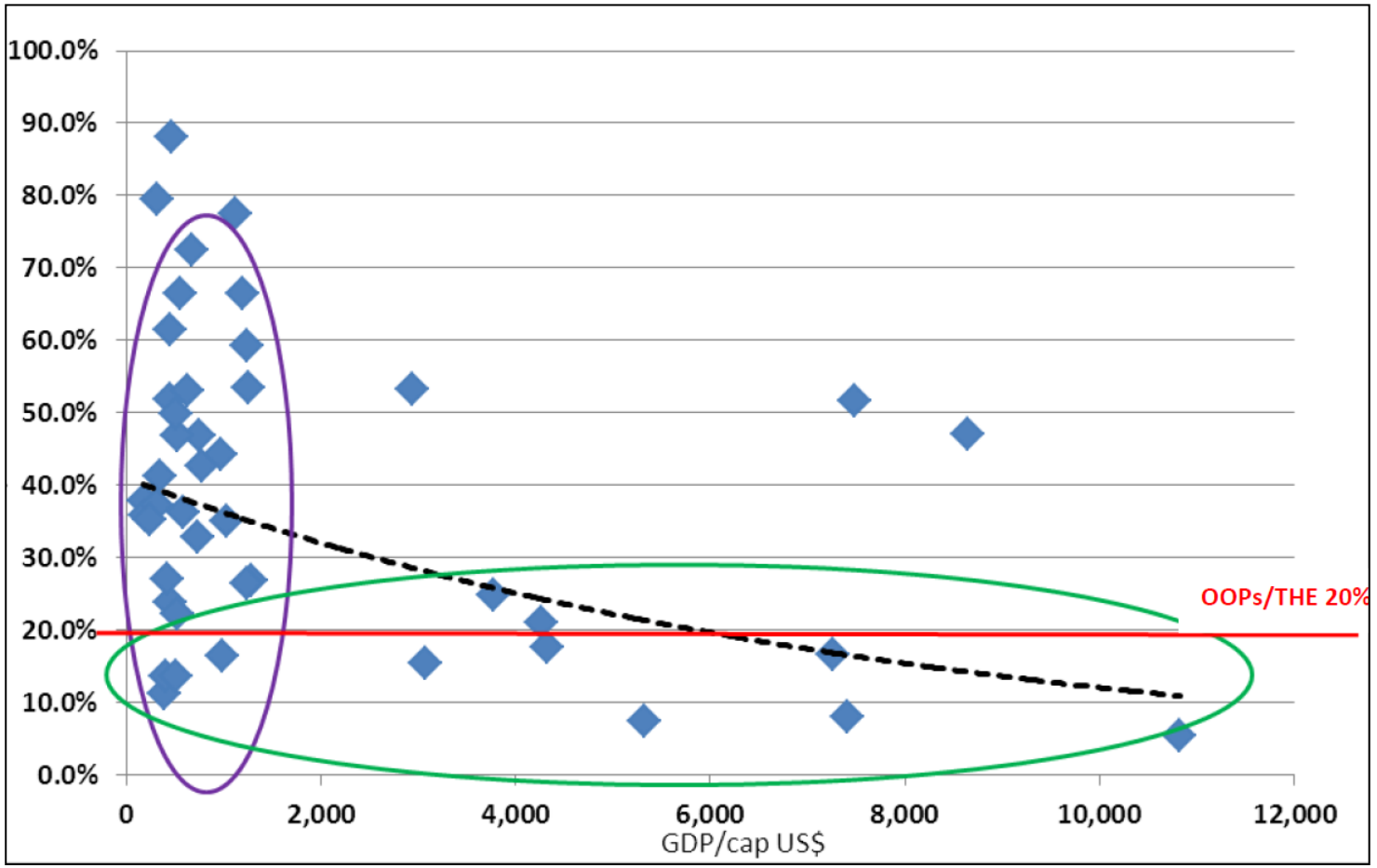
- "Regressive" payments account for a larger share of income in poorer households
- Antonym "Progressive"
  - Regressive: poor households pay a larger share of their income
  - Progressive: rich households pay a larger share of their income
  - Regressive/progressive character of payments may depend on:
    - Country context (size of middle class, characteristics of informal sector)
    - Design of payment system
- Regressive payments contribute to systemic "inequities" in health systems

"Health inequities are defined as the unfair and avoidable inequalities in health status between populations. Within health systems, equity applies to the goals of improved health outcomes, equity in finance, financial risk protection and responsiveness, as well as the objectives of good quality and utilization based on need."

- Rockefeller Foundation et al. 2013 Universal Health Coverage: a Commitment to Close the Gap

What role can government play to make revenue generation for health stable and sustainable?

Level of OOP spending higher in poor countries in sub-Saharan Africa



Source: WHO Regional Office for Africa. 2012. State of health financing in the Africa region.

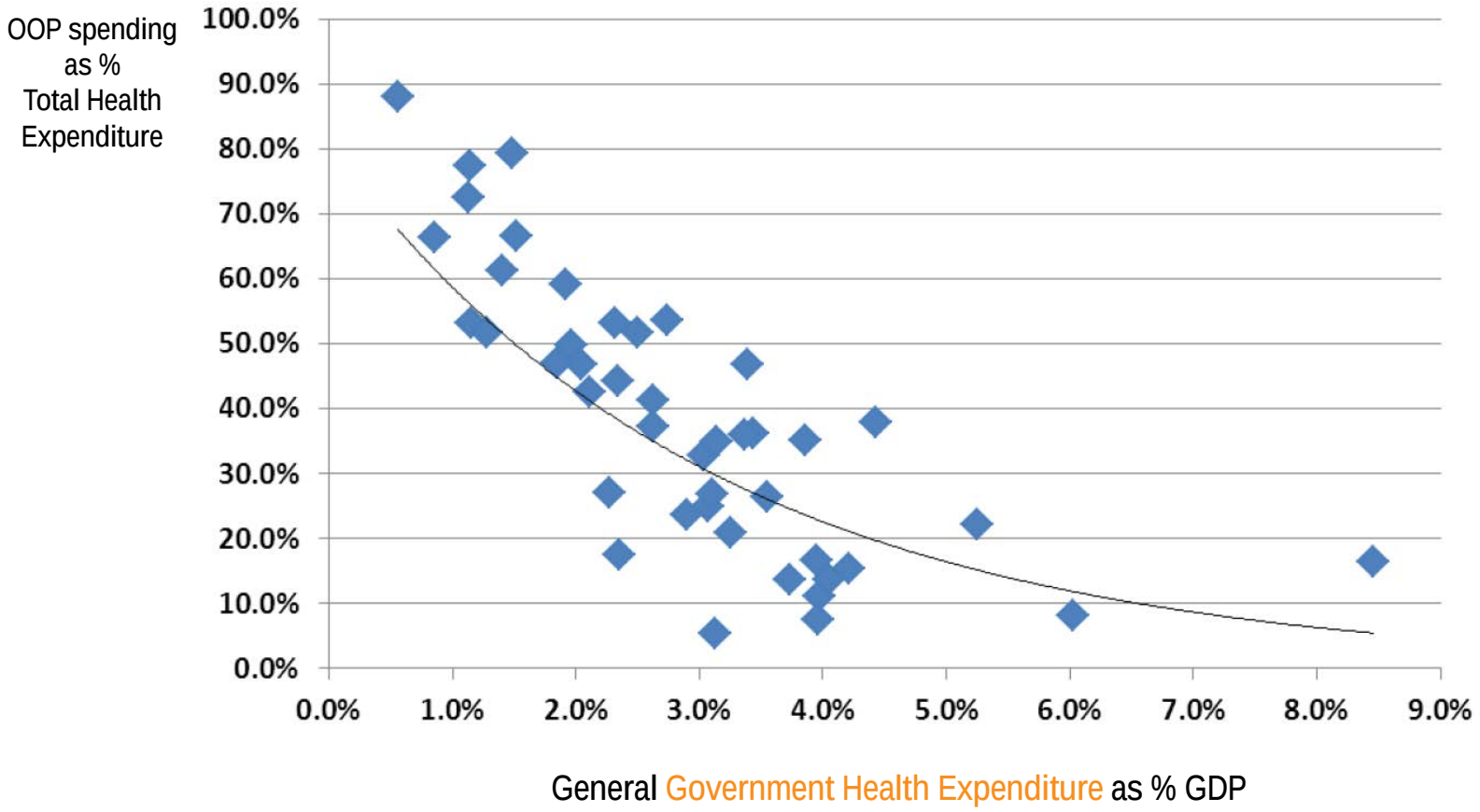
Vital governance role for govt. in health systems needed to progress towards UHC

- Improving equity in a country's collection and distribution of health resources also requires government action

- Government action can encourage movement from reliance on OOP spending to prepayment and risk pooling – government makes policy and can convene non-state partners

- Universal scale requires more government action …

Increased government spending in SSA is correlated with reduced OOP spending



Source: WHO Regional Office for Africa. 2012. State of health financing in the Africa region.

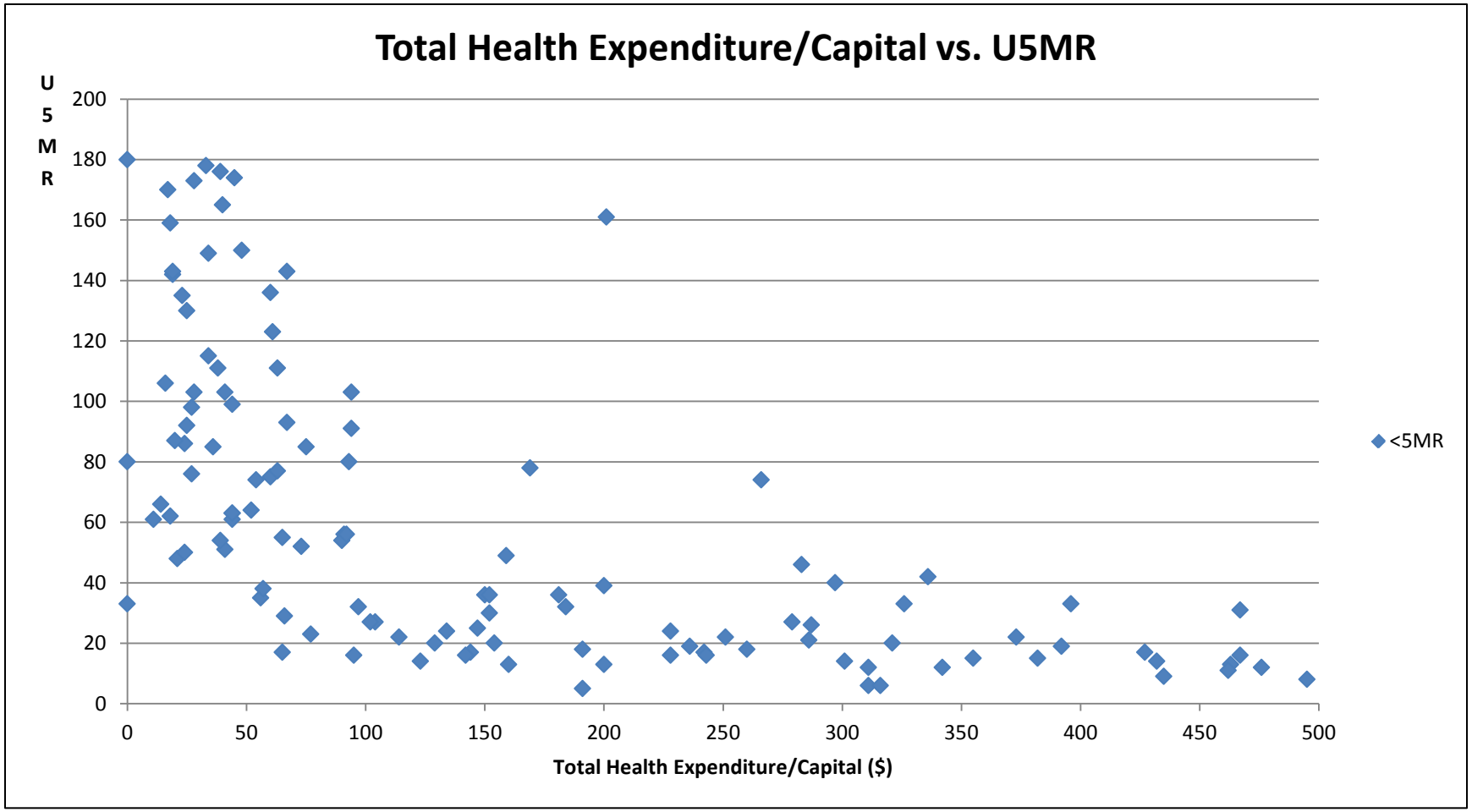
Beyond governance ….

- Setting up insurance (public and/or private) to pool funds is not enough
  - The poorest cannot afford premiums
  - Some public health services are not “insurable” for example immunization
- Need sufficient government revenue to support government expenditure on health programs
- Do we need to make the point about donors and sustainability???

How much is enough?

- Health spending as a percentage of GDP – 5%
- Percentage of general government budget allocated to health (Abuja declaration) – 15%
- Recommended health expenditure per capita for UHC – $86
- Threshold of OOP/THE that predisposes population to significant risk of catastrophic expenditure and poverty – >20%

Health Expenditure vs Health Outcomes



Health expenditure and health status in sub-Saharan Africa:

Study using panel data from 1995 through to 2010 covering 44 countries in SSA showed:

- Health expenditures influences health status through improving life expectancy at birth, reducing death and infant mortality rates
- Both public and private health care spending showed strong positive association with health status even though public health care spending had relatively higher impact.

Source: Novignon J, Olakojo SA, Nonvignon J. The effects of public and private health care expenditure on health status in sub-Saharan Africa: new evidence from panel data analysis. Health Economics Review. 2012;2:22. doi:10.1186/2191-1991-2-22. http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3533939/

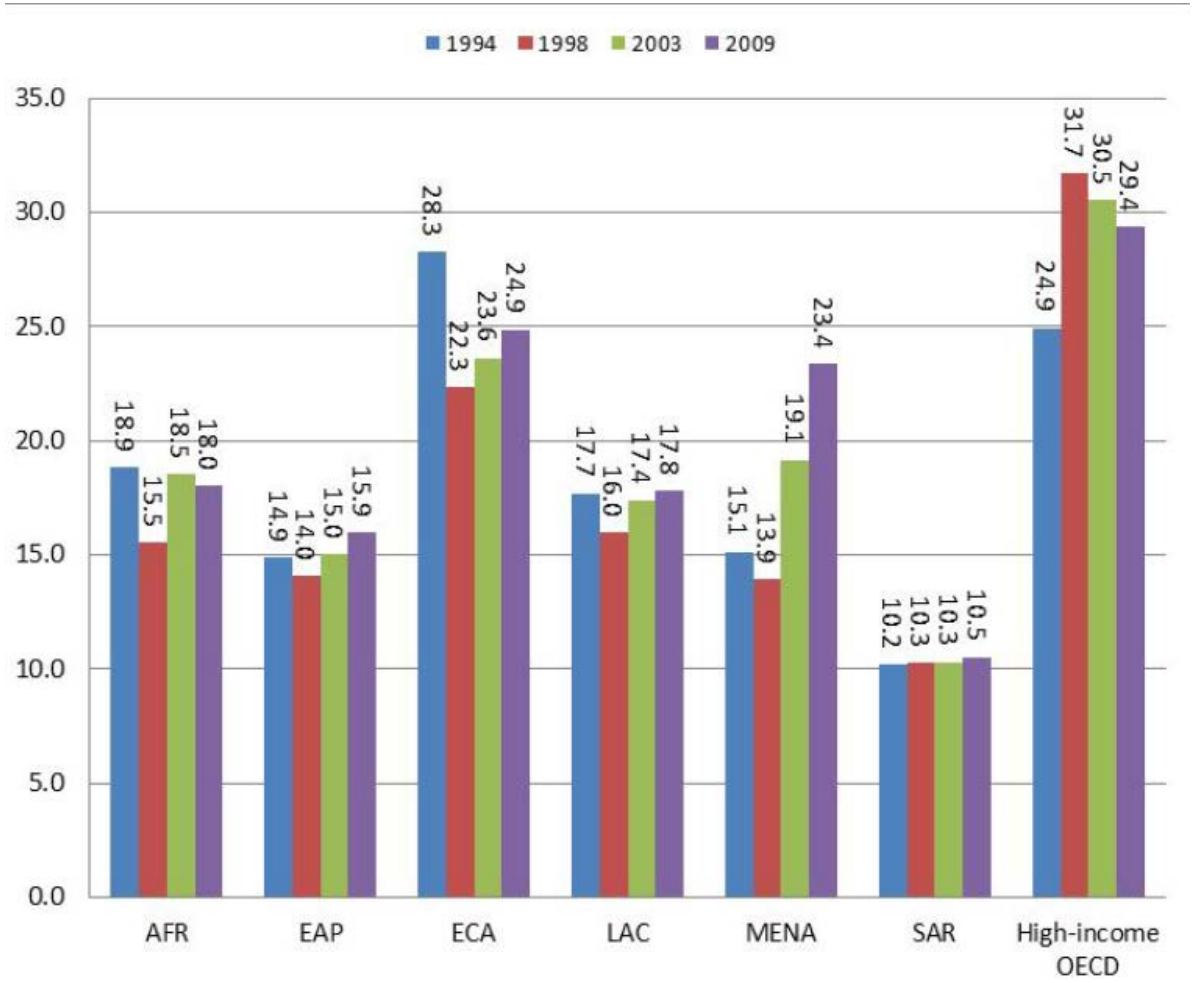
What role can government play to make revenue generation for health stable and sustainable?

Sources of general revenue

- Earnings from government enterprises (e.g. oil)
- Direct taxes *(more progressive)*
  - personal income taxes
  - corporate profit taxes
  - property taxes
  - wealth taxes
- Indirect taxes *(less progressive)*
  - sales taxes (clothing)
  - excise taxes (tobacco, alcohol, gasoline)
  - value added taxes (intermediate products contributing to a final good, such as car seats or radios in a car)
  - import duties
  - export taxes

Tax power in SSA on par with other developing regions …

Tax revenue as % of GDP



AFR: SSA

EAP: East Asia and Pacific

ECA: Eastern European and Central Asia

LAC: Latin America & Caribbean

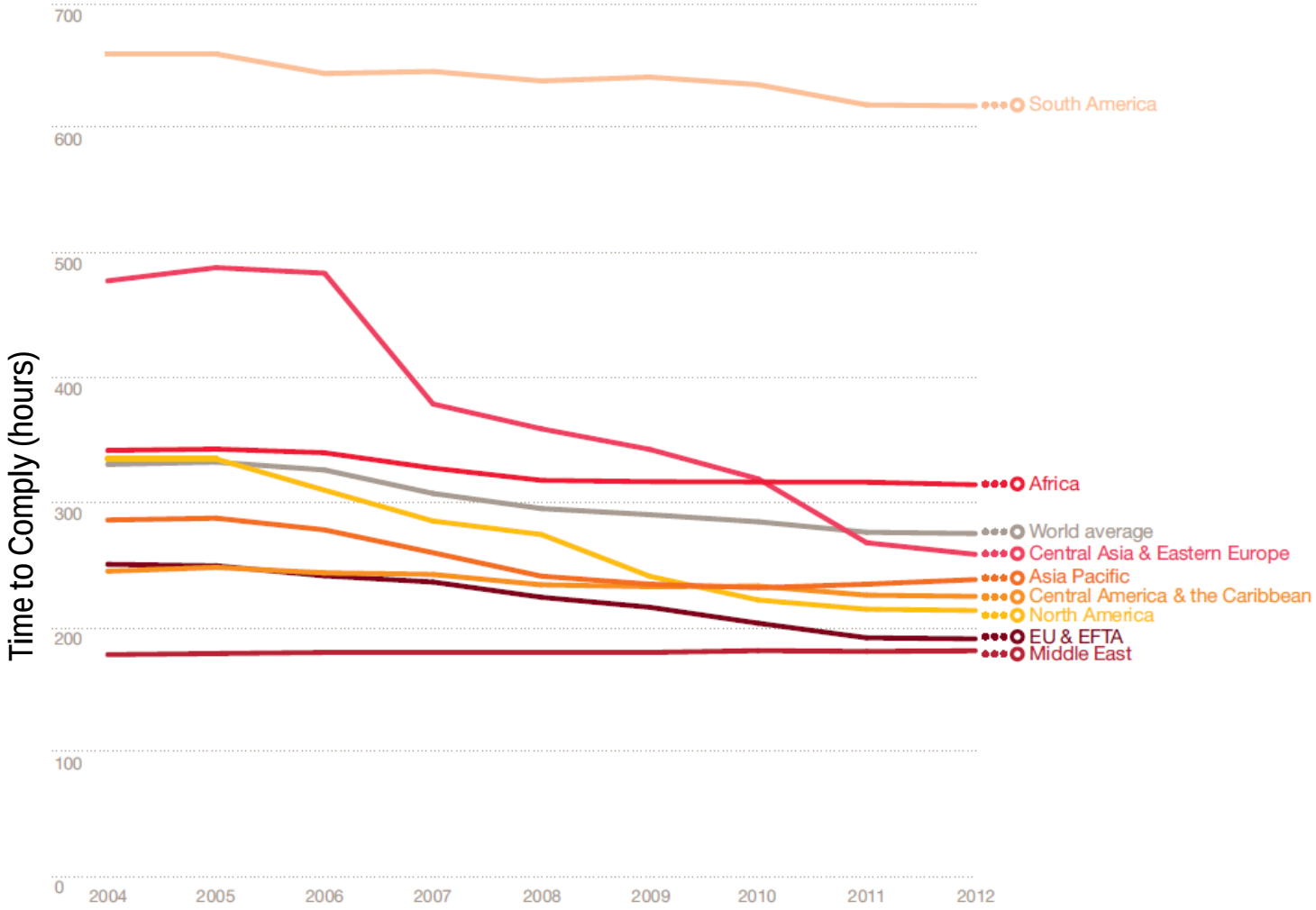
MENA: Middle East & North Africa

SAR: South Asia

Source: World Bank Development Indicators, from Le et al. 2012. Tax capacity and tax effort: extended cross-country analysis from 1994 to 2009.

Tax system efficiency in Africa has improved, but more progress can be made

"Time to comply" with tax obligations: indicator of compliance burden associated with profit, labor, and consumption taxes on businesses.



Source: Pricewater Cooper *Paying Taxes*: 2014 Analysis.

Some conclusions

- Engaging in reforms to shift revenue generation from OOP spending to prepayments (premiums or tax revenue) is essential for countries in SSA to make progress towards UHC
- Steady improvements in tax collection and reliance on a mix of revenue sources will allow countries eventually to build a stable and sustainable system for health resources generation
- SSA countries can improve the effectiveness and efficiency by:
  - Collecting existing taxes through better tax design (policy) and tax collection systems
  - Spending those revenues to improve health care and financial protection for the poor in an efficient manner

Taxes: Earmarked & Sin

- Sin taxes: levies on the consumption of products that are harmful to health such as alcohol and tobacco
- Earmarked taxes: taxes whose revenue is designated to be spent on a particular program or use

Complete the following:

	Tobacco tax	Urban property tax
Effectiveness, sustainability	✘	✓
Efficiency		
Economic impact		
Equity		

USAID
FROM THE AMERICAN PEOPLE

Health Finance & Governance
Expanding Access. Improving Health.

Thank you

www.hfgproject.org

Abt Associates Inc.
In collaboration with:
Avenir Health | Broad Branch Associates | Development Alternatives Inc. (DAI) | Johns Hopkins Bloomberg School of Public Health (JHSPH) | Results for Development Institute (R4D) | RTI International | Training Resources Group, Inc. (TRG)