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# Lessons from Implementing Public Financial Management Activities in the Health Sector

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Over the past five years, the Health Finance and Governance (HFG) project has supported over 35 countries and programs in their efforts to strengthen public financial management (PFM) systems. Activities have been tailored to address key priorities within a health system context, and have ranged from improving financial data systems to conducting costing exercises, financial analyses, and capacity-building workshops. Across these activities, several lessons have emerged.

Insights in this brief stem from analysis of over 200 HFG financing activities; interviews with stakeholders from Ukraine and Vietnam; and experience from cross-cutting program activities. These lessons are shared as a resource for fellow implementing partners, country practitioners, and donor agencies. As the project ends, this brief considers the global context and established frameworks for PFM

alongside the contributions of the HFG experience, and suggests a way forward.

## What is PFM?

A PFM system constitutes all of the processes, institutions, and policies that relate to how public funds are mobilized and used. This includes the structures and processes in place to support the full spectrum of a government's annual budget cycle—from revenue generation and budget planning and allocation across sectors as well as within sectors, to budget execution and monitoring to ensure the efficient, effective, and accountable use of public funds. The PFM system ideally allocates resources in alignment with objectives, ensures that the resources are spent effectively and efficiently, and minimizes misuse.

## Why PFM matters for health

Most low- and middle-income countries are designing and implementing strategies to achieve universal health coverage (UHC); however, there is variable progress among countries toward achieving this goal. Evidence shows that public financing is an essential factor to sustainable progress toward achieving UHC (Kutzin 2012). The PFM system underlies how government funds for UHC are used. As a result, countries are increasingly looking to strengthen their PFM systems to achieve long-term goals, especially as they become more reliant on domestic resources in a climate of inconsistent and often declining donor support for health (Krusell et al. 2017). In health, an important consideration is the alignment of health-specific financing mechanisms with PFM systems (Cashin et al. 2017).

## How HFG has approached PFM

Under HFG, 37 countries and bureau programs requested PFM support, resulting in nearly 200 distinct activities being implemented. Activities spanned the three main phases of the budget cycle: formulation and allocation; execution; and monitoring. PFM assistance applied cross-cutting technical approaches and strategies in implementation, from landscape assessments and financial analyses, to capacity building, resource mobilization, and fiscal decentralization support. Over 60% of HFG PFM activities included capacity-building components to ensure long-term sustainability of interventions.

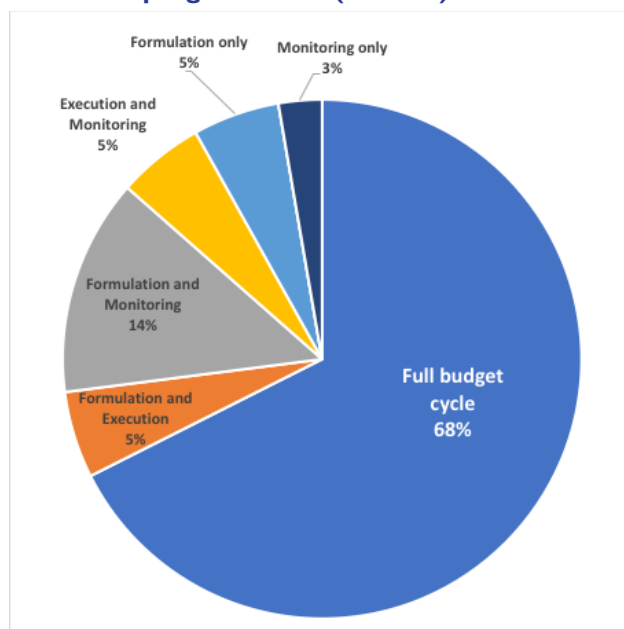
*In Haiti, HFG conducted trainings in resource tracking and the National Health Accounts (NHA) for Ministry of Health members, to build their knowledge and their skills to implement each phase of NHA and continually use results to inform policy decisions.*

As shown in the chart above, nearly 70% of countries and bureau programs received support across the full budget cycle. Only 8% focused on only one phase of the budget cycle. Of the 37 programs, 34 (92%) addressed budgeting for and within the health sector, 33 (89%) dealt with financial reporting and accounting systems, and 29 (78%) supported budget execution

activities including purchasing, procurement, and payment systems.

Programs that addressed only one phase of the budget cycle tended to be part of a broader intervention, with PFM being one of many components. In these cases, the primary program objective tended to be focused on a specific health intervention (such as on vector control), but included addressing one budget phase to contribute to sustainability of the intervention.

**Budget cycle phases as covered under HFG country and bureau program areas (37 total)**



## Lessons learned: Key considerations for implementers

### Keep sights set on health policy objectives and let PFM priorities follow.

PFM activities should not be done simply for their own sake. PFM interventions should flow from a logical assessment of how policy objectives can be attained, always keeping these objectives at the forefront.

Once policy objectives are set, PFM system constraints often are neglected until they become apparent during implementation. Without forward-thinking consideration of what is needed to achieve set end goals, stakeholders risk hitting a PFM

roadblock in mid-course, losing support from those who might have been lukewarm towards a policy to begin with. Assessing PFM system adequacy before implementation begins, and proactively addressing weaknesses, heads off PFM failures and prevents under- or non-achievement of policy goals.

Unlike other sectors, health has characteristics that require particular attention and flexibility from PFM systems in order to attain objectives. These include, for example, provider payment mechanisms to incentivize rational use of resources for service delivery (output-based payment), health insurance schemes allowing risk pooling to protect vulnerable populations, and long-term purchasing arrangements for essential drugs and commodities (Cashin et al. 2017). As one HFG Ministry of Health stakeholder noted, “Any new government regulation for procurement ... is very difficult to work with.”

In Vietnam, HFG worked closely with the national government to develop a centralized procurement system for antiretrovirals (ARVs), as external financial support and procurement phased out. To take on this procurement role required careful analysis of all phases of the budget cycle, including regulatory and contracting frameworks within the government. An official from the Ministry of Health emphasized the importance of thinking through the full implications of this process, stating: “Performing centralized procurement for ARV is not only a complete fit with Vietnamese policy, but is also in harmony with international regulations. ... However, [this] is a new concept in Vietnam ... everything must be studied carefully with the supply system in order to make it work.”

### **Build data analysis capacity for long-term success and to foster common understanding about the linkages between resource inputs and health outcomes.**

It is generally accepted that modernizing data systems, and particularly moving from paper-based to electronic systems, is crucial for making real-time evidence-based decisions. However, an important complement to electronic data is ensuring that stakeholders across the health system have the capacity to assess and analyze these data, and the

authority to act upon them. This is paramount to successful reforms and ensuring buy-in from all levels.

*In Bangladesh, HFG worked with stakeholders to conduct a UHC and health financing situational assessment, and formulate recommendations for the way forward— through identifying readiness for UHC, resource gaps and priority needs, and focus areas for investment. In mapping current resources and gaps, national stakeholders identified five focus areas for future investment and advocacy.*

Often there is a tendency to focus PFM efforts on financial data. However, in the health sector, it is important to relate financial data to the health outcomes data found in health information systems. Bringing these two sets of information together provides a comprehensive view of health system performance, and helps identify inefficiencies in resource use.

Ad hoc financial and cost analyses provide a glimpse into this intersection of inputs and outputs. However, HFG activities have shown the importance of building local capacity to conduct such analyses on a regular basis, to continuously develop data for decision-making. Regularly and routinely performed data analytics shed light on areas for improvement, such as unused resources, soaring costs for certain treatments, or other inefficiencies.

In Ukraine, improved data systems and analytic capacity in hospitals led health officials to consider how restructuring service delivery units could yield gains in efficiency and ultimately in quality of care. As one subnational stakeholder in Ukraine stated, “Some of our inefficiencies are extreme. We saw a surgical ward with 9 surgeons and hardly any actual surgeries, just procedures that should have been outpatient ... it seemed of utmost importance to see where efficiencies could be gained by restructuring, in order to free up money to help cover some of [the population’s] treatment or take some of the burden off of them as individuals.”

It is important to bear in mind that some components of a PFM system may not be easy to change in the short to medium term. For example, some health financing reforms may require tracking of expenditures following the same structure as a program-based budget. This is not possible with an accounting system that is structured along line item

inputs. To be able to develop a new chart of accounts that can be mapped onto the budget may take a long time (sometimes years), and may require new or updated accounting software to accommodate account codes to capture required transaction information. In such cases, interim information capture systems may have to be set up to serve the needs of the financing reform, while the process of PFM change is pursued.

### **Communicate early and often with stakeholders across sectors to align priorities and accelerate progress toward a shared goal.**

A key element of PFM reform is actively involving a variety of stakeholders in both the design and rollout of the intervention. As HFG experience has demonstrated, effective communication is key to bringing both health and finance perspectives together to achieve common goals over the long term (Krusell et al. 2017). A joint process ensures early on that interventions align with existing processes, and is especially important for shared understanding and strong partner commitment.

*In India, an assessment of financing mechanisms for maternal and child health shed light on the various financing flows for priority RMNCH+A services, identified key gaps in funding, and presented evidence about the impact of targeted financing on utilization. HFG applied global best practices and evidence from other countries to make recommendations for more-holistic financing mechanisms to address the entire MCH continuum of care.*

Widely disseminating results attained from PFM reforms at every step of the way is critical to getting managers and ultimately policymakers and the public on board. Reflecting on HFG Ukraine activities, a subnational stakeholder stated, “It is important not to forget this PR side/public opinion when we sit in our offices, look at [PFM] data, and talk about making financial and management changes.”

Strategic communication through trusted channels is thus key to PFM activities. Evidence shows that peer exchange by those who have been active participants and users of a given methodology can be a powerful tool in championing a PFM reform. Since PFM is cross-sectoral, experiences in other sectors can be

leveraged to build support for a reform within the health sector. Through effective communication, a critical mass of stakeholders will gain understanding of and commitment to change even before a new PFM methodology is ready for expansion or scale-up.

## **Conclusions**

These lessons together offer practical considerations for implementing PFM in the health sector. The integrated budget cycle and health financing landscape offer many entry points and levers for strengthening PFM. PFM has come into the limelight in the past five or so years, and the examples highlighted in this brief demonstrate the importance of PFM in health—and the importance of not taking it for granted, but being proactive to ensure that PFM weaknesses do not derail policy.

Successful PFM includes building capacity, aligning PFM to objectives, creating shared ownership of new PFM methods, and showing stakeholders and the public how PFM makes a difference, and accounts for the specific needs of the health sector.



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The Health Finance and Governance (HFG) Project works to address some of the greatest challenges facing health systems today. Drawing on the latest research, the project implements strategies to help countries increase their domestic resources for health, manage those precious resources more effectively, and make wise purchasing decisions. The HFG Project (2012-2018) is funded by the U.S. Agency for International Development (USAID) and is led by Abt Associates in collaboration with Avenir Health, Broad Branch Associates, Development Alternatives Inc., the Johns Hopkins Bloomberg School of Public Health, Results for Development Institute, RTI International, and Training Resources Group, Inc. The project is funded under cooperative Agreement AID-OAA-A-12-00080.

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