The Macroeconomic and Fiscal Context for Health Financing Policy

Informing the Dialogue Between Health Agencies and Budget Agencies in Low- and Middle-Income Countries

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MEETING ON FISCAL SPACE, PUBLIC FINANCE MANAGEMENT, AND HEALTH FINANCING
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Universal health coverage (UHC) requires adequate financial resources to pay for state-guaranteed health services. These resources need to be:

- **Pooled** effectively to provide financial protection
- **Redistributed** to maintain equity
- Collected and used **efficiently and equitably**

Individuals will not voluntarily contribute to insurance pools if it is too costly or they do not perceive a benefit.

So mandatory participation with cross-subsidization is necessary to reach universal coverage.

This requires government intervention.

Government revenue sources are raised most efficiently and are most effectively pooled and redistributed to maintain equity.
We know that:

- The government’s role in health financing is typically significant and grows as national income grows.

- Where government expenditure in health is low, the shortfall is made up by private spending, about 85% of which is out of pocket.

- Country’s with a higher share of government health financing often have more equitable financing and health services utilization, and lower levels of household catastrophic health spending.

*But how does a country know how much its government can/should spend on health?*
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• Country’s with a higher share of government health financing often have more equitable financing and health services utilization, and lower levels of household catastrophic health spending.

The questions for health financing policy dialogue are more complex than this.
World Bank Guidance Note on The Macroeconomic and Fiscal Context for Health Financing Policy

- Objective is to outline the key components of the macroeconomic, fiscal, and PFM context that need to be considered for an informed health financing discussion at the country level.

- The Guidance Note is intended to be useful to
  - country policymakers for discussions between health sector agencies and financing agencies,
  - international partners contributing technical inputs, such as situation analyses for health financing and public expenditure reviews for health.
Key Issues for Health Financing Policy Dialogue in LMICs

**Severe macroeconomic and fiscal constraints**

- Narrow tax base and low rate of collection
- New revenue for the health sector may be substitutive

**Stated priorities not always reflected in budget allocations**

- Budget allocations do not always match national health priorities, plans, or benefits packages because of competing priorities, budget rigidities, etc.

**Budget formation, execution and reporting process is a source of inefficiency**

- Line-item budgeting makes it difficult to match expenditure with priority populations, programs and services (pooling and purchasing the benefits package)

**Inefficiencies in health spending coexist with the need to increase spending**

- Scope for efficiency gains exists within the health sector, but it will take time and investment to realize these gains and health needs are uncertain.

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**Revenue for Health**

**Health Expenditure**
Key Issues for Health Financing Policy Dialogue in LMICs

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Revenue for Health

Health Expenditure

Scope for cooperation between MOH and MOF

Organization of the Guidance Note

- Walk through the four “blocks” of health financing issues
- Outline key questions to ask
- Point to available resources and tools to help answer the questions
- Compile and share country experience (ongoing)

This is a work in progress...
This meeting is expected to provide input into refining the key questions and developing new resources and tools.
### Block 1: Macroeconomic and Fiscal Constraints

#### Key Questions

| How large is the economy, how fast is it growing, and how stable and broad-based is the growth? | GDP per capita (constant prices) |
| How effectively does the government translates economic growth into revenue? | Revenue collection as a % of GDP |
| How much flexibility does the government have to borrow to finance spending priorities? | Gross debt as a % of GDP |

**The economy (GDP)**

- **How big is the pie?**
- **How much of the pie is collected by the government?**

**Government revenue as a % of GDP**
# Block 1: Macroeconomic and Fiscal Constraints

## Key Questions

<table>
<thead>
<tr>
<th></th>
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<th>Inflation rate</th>
<th>Employment rate</th>
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<td>Revenue collection as a % of GDP</td>
<td>Policies to improve revenue collection</td>
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<tr>
<td>How much flexibility does the government have to borrow to finance spending priorities?</td>
<td>Gross debt as a % of GDP</td>
<td>Government deficit as a % of GDP</td>
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## Resources

<table>
<thead>
<tr>
<th>World Development Indicators</th>
<th><a href="http://data.worldbank.org/data-catalog/world-development-indicators">http://data.worldbank.org/data-catalog/world-development-indicators</a></th>
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The primary World Bank collection of development indicators, compiled from officially-recognized international sources. It presents the most current and accurate global development data available, and includes national, regional and global estimates.

This document delineates a simple conceptual framework for assessing fiscal space for health and provides an illustrative roadmap for guiding such assessments.

The factsheets use graphical representations of 14 key indicators linked to the larger macro fiscal environment in which a health system operates. The definition of each indicator as well as a guide for interpreting them in the context of fiscal space for health is provided in all factsheets. The factsheets are available for 188 countries covering a period from 1995-2010. The data used in the factsheets is from the World Development Indicators (World Bank); Word Economic Outlook (IMF); and World Health Statistics (WHO) of November 2012. Gross National Income (GNI) is based on the atlas method (current US$).
What happens when government spending ignores macroeconomic and fiscal realities? *Experience in Ghana*

Between 2004 and 2008 government spending (total and on health) ↑ 55%

But the increased spending was fueled by debt and the economy was in crisis by 2009.
Radical macroeconomic adjustment was needed to stabilize the economy.

Between 2008 and 2009 GDP growth rate sharply declined as a result of stabilization policies.

Ghana got back on track quickly, but that is not always the case. And Ghana is facing new fiscal challenges.
### Key Questions

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<th>Answer</th>
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<td>How large is the total government budget and how much of that is discretionary?</td>
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<td>How are sector budget ceilings set?</td>
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<td>Are there any budget spending categories that can be considered inefficient or exacerbate inequities?</td>
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<td>What are the opportunities and constraints of the level and nature of fiscal decentralization?</td>
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<td>What is the strategy and supporting operational plans for the health sector, and what are the resources required to implement them?</td>
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How much of the government budget is allocated to health?

Government spending on health
**Key Questions**

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<th>Question</th>
<th>Information Sources and Tools</th>
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| How large is the total government budget and how much of that is discretionary? | Global Health Expenditure Database, using National Health Accounts Categories http://apps.who.int/nha/database/StandardReportList.aspx  
National Health Accounts (NHA) is the national implementation of a framework to track all health spending in a country over a defined period of time for each entity institution that financed and managed that spending. NHA generates consistent and comprehensive data on health spending in a country, which in turn can contribute to evidence-based health financing policy dialogue. |
| Are there any budget spending categories that can be considered inefficient or exacerbate inequities? | Results-based budgeting http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22757604~pagePK:64257043~piPK:437376~theSitePK:4607,00.html  
Results-based budgeting aims to shift budget management from inputs to tangible outputs and outcomes associated with public policy objectives. |
| What are the opportunities and constraints of the level and nature of fiscal decentralization? |                                                                                              |
| What is the strategy and supporting operational plans for the health sector, and what are the resources required to implement them? |                                                                                              |
Identifying specific areas of the budget to reallocate to health…

Indonesia hikes fuel prices, saving government $8 billion next year
JAKARTA Mon Nov 17, 2014 12:37pm EST

"The government has decided to redirect fuel subsidies," Widodo told reporters at the presidential palace. "The country has needed a (larger) budget for infrastructure, healthcare and education but instead spent it on subsidizing fuel."
...and mechanisms (not always earmarks)

Government commitment to UHC in Vietnam

**Block 3: Opportunities and Constraints in the PFM System to Improve Pooling and Purchasing**

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**Better Aligning Health Expenditure with Health System Objectives**

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<td>What is the nature and level of fiscal decentralization and what opportunities and constraints does that create for improving pooling?</td>
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<td>How many different funding pools exist in the health sector (across geographic areas and administrative levels, different revenue sources, and different purchasers)?</td>
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<tr>
<td>How much inequity is there across the pools in terms of contribution rates and benefits?</td>
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<tr>
<td>What mechanisms exist that allow the transfer of funds between administrative levels and health revenue sources?</td>
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<td>Is there a purchaser that is separate from the providers of care with institutional authority to make purchasing decision?</td>
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<td>Does the way budgets are formed, executed and accounted for make it possible to match funds with priority services? Is there flexibility to form and execute budgets based on services or programs?</td>
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<tr>
<td>What changes in the PFM rules would be required to allow output-oriented payment systems for providers?</td>
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**Resources**

- World Bank Fiscal Decentralization Indicators
  

  The World Bank Decentralization Indicators are derived from the International Monetary Fund’s Government Finance Statistics (GFS), which provides data on fiscal variables with consistent definitions across countries and years. The GFS includes more than 50 variables disaggregated at the level of state or provincial and local government.

- Toolkit for Ministries of Health to Work More Effectively with Ministries of Finance
  

- Guided Self-Assessment of Public Financial Management Performance (PFMP-SA) A Toolkit for Health Sector Managers
  

- World Bank How-To Manual on Designing and Implementing Provider Payment Systems
  

  The How-To Manuals provide step-by-step guidance for designing and implementing a per capita payment system for primary care, case-based payment for inpatient services, and global budgets to pay hospitals. The manual also address the supporting systems, including information and billing systems.
Public funds matched to priorities in Mongolia?

“Some limited flexibility to move between line items, but not between salaries and drugs. We could make a request through MOH to MOF to move money between line items, or get a budget modification from Parliament.”

Central Hospital

“We have some savings on electricity etc. but it is not allowed to shift them to use for staff costs. We save but incur debt in salary costs. To get permission to spend the savings for debt, we approach Health Department and MOF, which takes time and becomes impossible because financial reports come due.”

National Specialty Hospital

“When there are savings and a surplus, it is taken back by the MOF at the end of year. It is not possible to use it for operations. Our revenue from paid services exceeds the plan every year, however it is taken back by the treasury.”

District Hospital

“If you save on food it is not possible to use for medicines. It is restricting efficient use of resources, and there is no incentive or benefit for efficient operations.”

Source: Mongolia MOH. Assessment of systems for paying health care providers in Mongolia: Implications for equity, efficiency and universal health coverage (2014).
Areas for improving alignment between health financing functions and PFM

<table>
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<tr>
<th>Financing Function</th>
<th>Implementation Conditions</th>
<th>PFM Functions</th>
<th>PFM Challenges</th>
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| Revenue collection | Sufficient and stable resources to meet stated objectives | - Revenue forecasting  
- Budget formulation | - Poor revenue forecasting  
- The way sectoral budget ceilings are set does not reflect political commitments on level/source of funds or sector objectives or strategic and operational plans  
- Budget envelope is not realistic leading to ad hoc or across-the-board adjustments |
### Areas for improving alignment between health financing functions and PFM

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| Pooling            | Mandate and mechanism to accumulate and redistribute funds | • Budget formulation | • Fiscal decentralization means budgets are formulated at different administrative levels with no mandate/mechanism to transfer funds between budgets  
• Different budget formulation processes and pooling arrangements for different revenue streams (e.g. SHI)  
• Parts of the health budget, such as health worker salaries, determined and paid directly by the Ministry of Finance or Treasury |
Areas for improving alignment between health financing functions and PFM

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| Purchasing “what to purchase” | | • Budget classification  
• Budget formulation | • Difficult to match health spending to priorities when budgets are classified and formed based on inputs  
• Number of outputs a facility delivers is not predictable so need program not facility budget caps  
• Operational budgets largely consumed by salaries  
• Limited accountability for purchasing what government intends to purchase |
### Implementation Conditions
- Stable and predictable funding to enter into contracts with providers
- Flexibility to make payments according to outputs, activity or performance
- Mechanisms to create efficiency/quality incentives
- Standard accounting procedures, good financial reporting, internal controls and audit

### PFM Functions
- Budget execution (provider payment)
- Expenditure monitoring and accounting

### PFM Challenges
- Unspent budgets cannot be carried over to next year
- Delays in budget transfers
- Ad hoc in-year budget adjustments
- Budgets disbursed and accounted for according to input-based line items and movement across line items difficult (related provider autonomy)
- Difficult to match provider payment methods with what is purchased (benefits package, essential services, etc.)
- Inability to retain surpluses and efficiency gains
- Different purchasing arrangements and accounting for different revenue streams (e.g. health budget, SHI)
- Managing private funds in public facilities
- Poor information systems and monitoring capacity undermine accountability
Block 4: Inefficiencies and Fiscal Sustainability of Current Health Spending Patterns

Key Questions

- How is fiscal sustainability measured, and are spending patterns fiscally sustainable?
- What outputs and outcomes are produced and objectives achieved for the health resources used?
- Are there efficiency gains that could make better use of existing funds and curb unnecessary expenditure?
- What is needed to address the key inefficiencies over the short, medium and longer term? Are there estimates of cost savings and efficiency gains that could be achieved from these approaches?
- What are the incentives at different levels of the system to generate efficiency gains, and which institutions captures the efficiency gains of different measures?

Resources

- Toolkit for Ministries of Health to Work More Effectively with Ministries of Finance

- Self-Assessment of Internal Control Health Sector A Toolkit for Health Sector Managers

- Developing and Using Key Performance Indicators A Toolkit for Health Sector Managers

- Data for Efficiency: A Tool for Assessing Health Systems' Resource Use Efficiency
Identifying sources of inefficiency that can be managed within the health sector

### Allocative Efficiency: *Doing the Right Things*
- Health vs. other sectors
- Primary care vs. tertiary care
- The mix of interventions

### Technical Efficiency: *Doing the Right Things Right*
- The right mix of inputs
- The cost/quality of inputs
- Quality and variation of clinical practice
Fee for service to blame?

Source: Electronic claim database of inpatients from National Health Security Office, 2004-2006 Dr. Phusit Prakongsai, IHPP, Thailand
Main messages

- Government health spending will need to increase in many low- and middle-income countries in order to achieve stated health sector goals, such as pursuing universal health coverage.
- Given the macroeconomic and fiscal realities, however, growth in government health spending will be constrained.
- Health financing policy dialogue therefore needs to take a holistic approach grounded in these realities.
- When Ministries of Health and Ministries of Finance have a common understanding of the macroeconomic and fiscal constraints, discussions can focus productively on using funds in the most effective way to achieve health system objectives.
The part of health financing policy dialogue that is often ignored is how public money can be put to better use.

The ways health sector budgets are formed, executed and accounted for need to allow for better alignment between public funding and health sector priorities.

Ministries of Finance are often reluctant to move from traditional approaches built around inputs—buildings, staff and beds—which can be counted and accounted for.

To open more opportunities, Ministries of Health may have to increase efforts

- to demonstrate strategic plans with realistic estimates of resource requirements,
- address and quantify potential efficiency improvements, and
- commit to measurable objectives for which the health sector is willing to be held accountable.
Thank you.