Earmarking for Health: In Theory and in Practice

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A Proposed Typology and Database of Country Experience

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Introduction

• Earmarking is being used as an option to increase fiscal space and mobilize resources for the health sector

• Earmarking has become part of the global dialogue on innovative sources of financing for domestic resource mobilization for health
  o gained attention in transition from donor supported global health programs

• There are many arguments for and against earmarking, but they often remain theoretical- or even ideological

• In spite of the vast country experience using this policy instrument, very little empirical evidence has been applied to the debate
Arguments for and against earmarking

Arguments for:
- Revenue Protection: Earmarking revenues may protect resources for a programme or service by ring-fencing them from competing political interests and bypassing budgetary constraints.
- Efficiency: More closely linking taxation to benefits may increase efficiency of public expenditure.
- Public Support: More closely linking taxation to benefits may decrease public resistance to taxation.
- Accountability: More closely linking taxation to benefits may increase accountability.
- Cost Awareness: Earmarking revenues can educate people about the cost of a particular program or service.
- Flexibility: Earmarking may increase the flexibility in how funds can be used (for example, for health, avoid restrictions in public budget systems that limit the effectiveness of pooling and purchasing arrangements by keeping funds off-budget).

Arguments against:
- Budget Rigidity: Earmarking introduces rigidities into the budgetary process that may lead to an inefficient allocation of resources.
- Economic Distortion: Earmarking may also lead to distortions in the overall economy.
- Pro-Cyclicality: Earmarked revenues will be inherently pro-cyclical and therefore susceptible to booms and busts and reduce government flexibility to manage downturns.
- Fragmentation: In the case of health financing, separating health care from other revenue sources or areas of public spending could lead to a lack of integration of health financing and health policy with other sectors.
- Decreased Solidarity: Solidarity in financing public services may decrease by defining each individual's share of a particular service or sector based on revenues contributed.
- Susceptibility to Special Interests: Earmarked revenues may be particularly susceptible to the influence of health groups and professional lobbies.
Program of work to better understand the use of earmarking for health

- Develop a framework and typology to characterize policies on earmarking for health
- Use to collect and synthesize country experience
  - Background paper
  - “Living database” on the Joint Learning Network website
  - Country deep dives and learning exchanges
- With the ultimate objective of:
  Better understanding current country experience to provide information for both health and finance authorities on the practical realities, potential benefits, and possible drawbacks
Analytical approach

Characteristics of the Earmarking Policy
(“Earmarking Typology”)

Revenue Characteristics
- Revenue source
- Tax or contribution instrument
- Earmarked tax or contribution rate
- Earmarked tax base
- Portion earmarked for health
- Where earmarked funds are collected
- Revenue generation level

Expenditure Characteristics
- Expenditure purpose
- Revenue and expenditure linkage
- Identifiable benefits rationale
- Expenditure level

Process Dimensions
- Policy adoption process
- Collection of earmarked funds and funds flow
- Allocation and use of earmarked funds
- Accountability

Results
- Impact on health sector budget
- Impact on general budget process
- Broader economic impacts
- Broader health and social impacts

Contextual Factors
Funding health sector priorities like moving towards UHC can be challenging, especially when a country’s budget is already strained to meet multiple demands across sectors.

Earmarking revenue is one mechanism that countries use to increase fiscal space and mobilize resources for the health sector. While there is vast country experience with earmarking, and many types of earmarks that can be used, there is little practical evidence or documentation of these experiences. Do earmarks bring the intended benefits of a stable and growing resource base for the health sector? On the other hand, are opponents of earmarking correct—do they introduce rigidity and inefficiency into the government budgeting process?

R4D is collaborating with the World Health Organization (WHO) to collect and synthesize qualitative country experience mobilizing revenue for the health sector through earmarks, as part of the Montreux Collaborative Agenda on Fiscal Space, Public Financial Management, and Health Care Financing.

The Online Survey of Country Experience is part of a "Living" database of country experience that is being developed by the Joint Learning Network. It will help inform future work on earmarking.
Information so far on the global use of earmarking for health

64 countries earmark payroll taxes for social insurance contributions (but decreasing as a share of revenue)

3 countries earmark a portion of VAT

General revenue
Earmarked shares of general revenue (2 countries), inter-governmental transfers (3 countries)

24 countries earmark tobacco taxes

20 countries earmark other “sin” taxes

Other instruments
Lotteries, mobile phone companies, and foreign personal money transfers
Emerging messages from country experience-sharing

To earmark or not to earmark?

..... It depends.

• Not for all countries but useful for some. Whether or not earmarking is the right instrument to operationalize a priority is CONTEXT SPECIFIC

• Requires dialogue and consensus on GOALS between health and finance

• Need for BALANCE to minimize potential budget rigidities
  o Between tight expenditure purpose and flexibility to meet emerging challenges; AND
  o Between revenue-expenditure linkage

• Can introduce flexibility in expenditure (for purchasing) IF can establish clear lines of accountability and flow of funds that can be TRACKED
.... And Questions

- Can earmarking be both sides of the coin (a double win for fiscal space)?

- Are earmarks “forever” or should there be a sunset clause?

- How do you measure and demonstrate results of how earmarked funds are used?
Next Steps

• Continue deep dives on specific country experience
• Update database—please contribute!
• Finalize background paper
• Develop practical knowledge product for countries considering earmarking policies for health