

# Health Financing Revisited

## A Practitioner's Guide

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# Foreword

Global health policy is at the forefront of the international policy agenda. Globalization, the international community's commitment to reduce poverty and achieve the Millennium Development Goals (MDGs), the intervention of new foundations with significant resources, as well as health threats such as severe acute respiratory syndrome and avian flu, have sparked significant increases in funding for global health from both traditional and new sources. Recipient countries have also made commitments to increasing resources for public financing of essential health services to reach the MDGs. This represents both a great opportunity and a major challenge to all donors and recipient countries alike.

There is a tremendous gap between rich and poor countries with respect to health spending and health needs. Developing countries account for 84 percent of the global population and 90 percent of the global disease burden, but only 20 percent of global gross domestic product (GDP) and 12 percent of all health spending. High-income countries spend about a hundred times more on health on a per capita basis than low-income countries: even after adjusting for cost of living differences, high-income countries are spending about 30 times more on health. Worse still, more than half of the spending in poor countries comes from out-of-pocket payments by consumers of care—a highly inequitable form of financing because it hits the poor hardest and denies all individuals the type of financial protection from the costs of catastrophic illness provided by public and private insurance mechanisms. In addition, most poor countries are unable to provide their citizens with a basic package of essential health services.

This inequity has tremendous consequences for the health status of the world's poor. Low-income countries are still facing major disease burdens from preventable and treatable communicable diseases, in addition to the financing problems associated with sustained increases in population growth, life expectancies, and disease burdens related to noncommunicable diseases. These factors not only disproportionately affect the poor, but also increase health care costs and impede productivity and economic growth.

Middle-income countries are struggling to achieve universal coverage of essential services and provide their populations with financial protection against catastrophic spending, while facing increasing health costs caused by demographic

and epidemiological transitions and the implementation of new technologies. Most middle-income countries have embarked on reforms to deal with these problems by enhancing revenue collection and risk pooling efforts and improving the efficiency of health care spending.

International recognition of these global health inequities by the Group of Eight, the European Commission, and the United Nations, as well as global public health threats and support for countries to reach the MDGs, have resulted in significant increases in development assistance overall and development assistance for health in particular after almost a decade of decline in the 1990s. Nonetheless, much larger increases in donor assistance—estimated to be on the order of \$25 billion to \$70 billion a year—are needed to provide the world's poor with essential services and for countries to reach the health MDGs.

But more resources alone will not lead to better results unless the global community squarely faces the challenge of strengthening the implementation capacity of health systems so that resources translate into better health outcomes for the poor. Despite improvements in access to health care services as a result of global programs, recent experiences in scaling up assistance through these programs have also highlighted the presence of significant implementation bottlenecks—macroeconomic, governance, institutional, health systems-specific—that inhibit the effective, efficient, and equitable use of development assistance for health.

To mitigate the effects of implementation bottlenecks, donors as well as recipients must be held mutually accountable for their promises, behaviors, and results. Donor countries will need to meet their aid commitments, harmonize their efforts, increase the predictability and longevity of aid flows, and reconcile national political interests with global needs. Countries need to do their part to ensure that increased public spending “buys” better health and human development outcomes for the poor. Recipient countries need to improve governance and their macroeconomic and budgetary management capacity, reduce corruption, ensure that they have functioning health systems supported by long-term sustainable financing and effective partnerships with nongovernmental providers, and achieve results in terms of improving their human development indicators.

In middle-income countries and even some large low-income countries, donors play only a minor role in the financing of health systems, and major increases in external resources for health in these countries are unlikely. Under these circumstances, certain factors become important public sector priorities, including ensuring equitable, efficient, and sustainable financing; developing effective and equitable risk pooling and prepayment mechanisms; improving regulatory capacity to deal with market failures; ensuring appropriate governance arrangements; getting better value for money through allocative and technical efficiency gains; targeting financing to the poor and vulnerable; and learning from the experiences of the high-income countries.

This report provides an overview of health financing tools, policies, and trends, with a focus on challenges facing developing countries. While all health financing systems should seek to improve health status, provide financial protection against catastrophic illness costs, and satisfy their participants, the evidence reviewed here reveals that there is no single “road” for achieving these goals. Countries operate within highly variable economic, cultural, political, demographic, and epidemiological contexts. The development of their health delivery and financing systems—and the optimal solutions to the challenges they face—will continue to be influenced by these and other historical country-specific factors. Nonetheless, countries can learn from each other’s health financing efforts. This report highlights some key lessons in this area and provides policy recommendations based on underlying economic principles, political environments, socioeconomic conditions, and institutional realities, not buzzwords, slogans, and magic bullets. It also highlights the remaining and anticipated challenges for developing countries and their global partners.

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# Acronyms and Abbreviations

CBHO	community-based health organization
CPIA	country policy and institutional assessment (World Bank)
DAC	Development Assistance Committee (OECD)
DfID	U.K. Department for International Development
DRG	diagnostic-related groups
FDI	foreign direct investment
G-8	Group of 8 (countries)
GDP	gross domestic product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GP	general practitioner
HIPC	Heavily Indebted Poor Country
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
IDA	International Development Association (World Bank)
IFF	international finance facility
ILO	International Labour Organization
IMF	International Monetary Fund
MAMS	maquette for multisectoral analysis
MBB	marginal budgeting for bottlenecks
MP	Millennium Project (Millennium Development Goal needs assessment)
MTEF	medium-term expenditure framework
NGO	nongovernmental organization
NHS	national health survey
OECD	Organisation for Economic Co-operation and Development
PEPFAR	U.S. President's Emergency Plan for AIDS relief
PER	public expenditure review
PETS	public expenditure tracking survey
PHI	private health insurance
PRSC	poverty reduction support credit
PRSP	poverty reduction strategy paper
SDR	special drawing right
STEP	Strategies and Tools against Social Exclusion and Poverty
VAT	value added tax
WHO	World Health Organization