

**Controversies in Health Care Financing:  
Perspectives and Debate**

*Special Session at the 6<sup>th</sup> Congress of iHEA*

**DANIDA  
Danish Ministry of Foreign Affairs  
Ministry of Foreign Affairs (Udenrigsministeriet)  
Asiatisk Plads 2**

**Copenhagen, Denmark**

**Sunday July 8, 2007**

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## I. SUMMARY

This note summarizes a proposed Special Session on Future Directions in Health Care Financing (Perspectives and Debate) which will be held at the 6<sup>th</sup> Congress of the International Health Economics Association (iHEA) at DANIDA in Copenhagen on July 8, 2007.

Without additional money and better spending in the health sector, the Africa region and low-income countries in other regions will not achieve the MDG goals. Given the binding constraints on fiscal space allocated to the health sector, business as usual is unlikely to secure a sustainable source of financing for these countries. Yet moving forward on the health financing agenda is not easy. The proposed session will examine and debate the role of several major funding mechanisms that are at the center of a lively debate on health care financing in both low-income and higher-income countries today. They include:

- Fee Exemption vs User Fees
- Government Funded National Health Services vs Social Health Insurance
- Solidarity vs Consumer Driven Health Financing
- Old vs New International Health Financing Architecture

Each of the four sessions will start with a presentation of the key issues raised by the particular topic in question. This will be followed by a panel debate on the key controversial issues raised by the particular topic. The panelists will be policymakers and analysts that have real on the ground experience. Given known ongoing debate on the role of each of these topics, panelists will be chosen who represent diverse views on each of the selected topics.

Participants from low-income countries will be allowed to attend the session for free. Others will be asked to pay a small nominal fee, similar to that charged for the other pre-iHEA special sessions.

Background papers and relevant case material will be made available at the time of the conference. Most of the material will be based on a synthesis of existing research and not new studies.

The core partners responsible for preparation of the event will be the World Bank, the IFC, WHO (Geneva and Afro), ILO, UNICEF, OECD and the Global Taskforce on Healthcare Financing. The meeting will be hosted by DANIDA. Selected donors will provide scholarships for participants from developing countries

The attachments provided include:

- I. An Agenda for the Special Session
- II. A concept note describing the context, rationale etc for the special session

## II. AGENDA

**DANIDA**  
**Danish Ministry of Foreign Affairs**  
**Ministry of Foreign Affairs (Udenrigsministeriet)**  
**Asiatisk Plads 2**

*Morning Morning 8:30 – 12:30*

### **Introduction**

Panel: Terkel Christiansen (President 6th iHEA Congress), Finn Schliemann (DANIDA) and Alexander S. Preker (World Bank)

### **Solidarity or Consumer Driven Health Financing**

Chairs: Alexander S. Preker (World Bank), Guy Carrin (WHO), and Xenia Scheil-Adlung (ILO)

Panel: Ladi Awosika (Total Health Trust, Nigeria)  
Helen Dzikunu (DANIDA, Ghana)  
Maximillian K.K. Mapunda (WHO, Tanzania)  
Richard Scheffler (Berkeley, USA)

*Coffee*

### **Tax Funded Health Care or Social Health Insurance**

Chair: Adam Wagstaff (World Bank)

Panel: Ricardo Bitran (Bitran and Associates, Chile)  
Mathew Jowett (GTZ, Manila)  
Jack Langenbrunner (World Bank, USA)  
Bill Savedoff (Socialinsight, USA)  
Pia Schneider (World Bank, USA)

*Lunch*

*Afternoon 14:00 – 15:30*

### **Free Exemption or Subsidized Care**

Chair: Agnes Soucat (World Bank, USA)

Panel: Xu Ke (WHO, Geneva)  
Christine Kirunga (DANIDA, Uganda)  
Fola Laoye (Hygeia Nigeria)  
Abdelmaji Tibouti (UNICEF, USA)  
Robert Yates (DFID, Congo)

*Coffee*

### **Old or New International Health Financing Architecture**

Chair: Julio Frenk (Former Minister of Health, Mexico)

Karen Cavanaugh (USAID, USA)  
Maria Luisa Escobar (Global Task Force, USA)  
Pablo Gottrett (World Bank, US)  
Dan Kress (Gates Foundation, USA)  
Onno Schellekens (PharmAccess, Netherlands)

### **III. CONCEPT NOTE**

This concept note summarizes the background context for a Special Session on Future Directions in Health Care Financing (Perspectives and Debate) to be held on Sunday July 8, 2006 at DANIDA in Copenhagen, Denmark. This note summarizes the preparatory work in terms of reviewing health care financing in the Africa region and other low-income contexts, key challenges, broad range of policy options, and rationale for donor involvement, including an assessment of benefits and risks.

The proposed preparatory work will be divided into three phases: (a) preparation of the analytical reviews, illustrative case studies and other material for the meeting; (b) travel arrangements for participants; and (c) preparation of a conference volume and post conference proceedings.

#### **CONTEXT**

Achieving the health related Millennium Development Goals in the Africa Region and low-income countries elsewhere will require both mobilization of significant additional financial resources for the health sector and better spending of scarce resources, in addition to addressing the intersectoral determinants of illness. Both strategies are needed. Neither will be successful in itself. There is an acute shortage of human resources in the health sector in the Africa region. Early estimates indicate a need for an additional one million workers to meet health targets. The already high cost of providing even essential drugs for those who need them, outstrips the budget of most governments. The recent HIV/AIDS crisis, continued challenge posed by malaria and resurgence of drug resistant infectious diseases has made this situation even worse. Addressing these issues will cost more money, money that exceeds the fiscal space allocated to the health sector in most countries of the African region.

On August 26, 2005, the Bank was asked to organize a Special Session on health care financing for the 55 Regional Committee of WHO AFRO. During this meeting – which was attended by the Ministers of Health from the 48 member countries – several of the delegates appealed to the Bank to work with WHO AFRO in preparing a regional health financing strategy that would allow member countries to make better progress towards achieving the MDG. The Africa regional health financing strategy was presented to the Executive Board of the Regional Council in the spring 2006 and adopted at the 56 Regional Committee in August 2006. This presents a unique opportunity for the Bank to have a strategic input to elaboration of such a health financing strategy for the Africa Region.

#### **The Health Challenge in the Africa Region**

The Africa region is currently not on track in achieving the health-related MDGs. First, there is a significant gap between the health-related MDG targets and current progress in the Africa region. Second, African countries are falling behind progress made in other regions in moving towards the health-related MDG targets.

While this century has witnessed greater gains in health outcomes than at any other time in history, improvements in Africa have been slower than in other regions. In fact, some of its countries have exhibited reversals. For 19 African countries, the under-five mortality rate has

actually risen (World Bank 2004)<sup>1</sup>, and life expectancy in the region fell between 1980 and 2000 (see Figure 1 and 2).

Addressing these problems requires both more and better spending on health care as well as action that addresses some of the other intersectoral determinants of poor health. The wide variation in the scatter plot on the correlation between Under 5 Mortality public spending per capita on health care (see Figure 3), indicates that additional spending on health care is needed but not sufficient in achieving good health outcomes (WDR 2004; PHR Plus 2001). And it is necessary to ensure that the scarce resources that are spend on health care, address the most critical health challenges confronted by households (Soucat 2002).

### Policy Options for Reform

Several factors relating to revenue collection, risk pooling, and spending at low income levels make the policy options for financing health care in the Africa region and other low-income countries different from those of middle and higher income countries.

The pre conference session build on past and ongoing work on in health care financing related to: (a) revenue collection (e.g. via donor aid, general taxation, private voluntary insurance, community-based health care financing, and donor aid); (b) management of risks (insurance and subsidies); and (c) strategic resource allocation and purchasing of priority health services. It will seek to explore new and innovative approaches to secure financial sustainability for priority health programs and protecting populations against the impoverishing impact of illness. The following figure summarized the main instrument available to policy makers in achieving these objectives (see Figure 4).

Figure 4: Range of Mandatory and Voluntary Financing Instruments in Health Sector

	Subsidies	Insurance Mechanisms			Savings	Donor Aid
	General Revenues	Public	Private	Community Financing	Household Saving	Donor Aid
Voluntary						
Mandatory						

See Box 1 for a review of the flow of funds through the health system.

**Box 1.**  
**Flow of funds through the Health Care System**

The flow of funds through the health care system, and the public/private mix, is complex (see Figure 5). The flow of fund for recurrent expenditure can be differentiated into the following three discrete sub-functions: (a) collection of revenues (source of funds); (b) pooling of funds and spreading of risks across larger population groups (risk management); and (c) spending on public and private providers (resource allocation and purchasing). The flow of funds for capital expenditure can be differentiated into; (a) capital instruments and (b) capital allocation mechanisms.

<sup>1</sup> World Bank, Strategic Options for Africa: Chapter I “What’s the Problem: HNP Realities in Africa” (World Bank, 2004).

Among these funding mechanisms, there is an active debate and considerable disagreement among policymakers at the country level, international donors, and others about the appropriate role of the following four approaches to health care financing at low-income levels: (a) user fees; (b) social health insurance; (c) private finance; and (d) new international donor mechanisms.

### **RATIONALE FOR DONOR INVOLVMENT**

There are several reasons why the Bank, WHO, ILO, UNICEF, DANIDA and other donor organizations have an interest in stimulating a transparent debate on the main issues and policy options for resource mobilization, management of vulnerability and strategic purchasing of priority health services in the Africa region.

First, all the collaborating agencies are committed to helping client countries address and achieve the health-related Millennium Development Goals (MDGs). In many countries in the Africa countries (World Bank 1993, 1997, 2006); CMH 2002; WHO 2002, ILO 2003, UNICEF 2004), public spending on health care is well below the levels needed to achieve the MDG targets over the next decade. More and better targeted spending as well as improved management of scarce resources will be instrumental in addressing this problem. Furthermore, recent studies indicate that the financial vulnerability and out-of-pocket payments at the time of illness contribute significantly to impoverishment if the general population, not just the poor. Reviewing and developing an action plan for addressing these issues is consistent with recommendations made by all the involved agencies.

Second, although much is known about the health care financing challenges in other regions of the world, robust analysis of the key issues and policy options reform in the Africa and other low-income contexts remains scant. Given the expressed commitment by the international development community in helping the Africa region address its disproportionate disease burden and poverty alleviation objectives, the proposed pre-conference session on innovative approaches in health care financing is particularly timely. At the time of the 55<sup>th</sup> Regional Committee in Maputo in August 2005, many of the Ministers of Health who attended this meeting explicitly requested help from the Bank, AFRO and other development partners in elaborating a regional strategy for health care financing. The strategy was ratified by the Regional Committee of Ministers in August 2006. This strategy could have a significant impact in terms of securing more fiscally sustainable source of financing, managing of financial vulnerability and improving value for money if it were underpinned by robust analysis of past failures and elaboration of realistic policy options for reform in the future.

Third, all the international partner agencies are currently actively engaged in a broader discussion on the fiscal space available to the health sector for the health sector and role of user fees, social health insurance, private finance and donor harmonization.

Fourth, foreign assistance to the health sector in the Africa region is already exceptionally high compared with other regions (an average of 35 percent of health sector expenditures are financed by donor aid, with levels reaching 50 percent and above in a few selected countries). Yet a recent review of all investment projects, MAPs and SWAPs supported by the Bank during the past 20 years indicated that few of these operations address the underlying issues of financial and fiscal sustainability of the health sector. Very few donor supported operations focus specifically on building and strengthening the organizations, institutions and management needed to secure more sustainable domestic financing in the the future. It is equally striking that despite a significant injection of donor money in the health sector over the past few years none of the

recent global public health initiatives related to HIV/AIDs, TB, malaria, maternal and child mortality, and reproductive health, none address this issue.

There is an urgent need to reverse this trend to secure the financial and fiscal sustainability of the key public health priority programs in the Africa region. Effective action will require a multi- sectoral approach, drawing from several sectors and partner agencies.

## **Benefits**

First, an improved understanding and better policy options for health care financing will be central to achieving the health-related MDGs and growth related development goals in the Africa Region.

Second, although much is already known about the issues and policy options for improving health care financing in other regions, there is considerable disagreement even among senior experts on the optimal development path for health financing reform in the Africa region and other low-income countries where institutional, organizational and management capacity is weak and absolute resource shortages a major binding constraint. The review will provide an opportunity to elaborate an Africa specific health financing strategy that takes this context into consideration.

Third, there are still significant gaps in the current analytical work and understanding of issues such as fiscal space, labor market effects and fungibility of donor funding (ie the macro economic implications of health care reform). There is a particular urgent need to address these issues in the Africa region and low-income counties elsewhere.. The international donor agencies will be in a much better position to provide sound technical advice on health financing reforms in the Africa region once these issues and policy options for reform have been fully explored.

## **Risks**

Experience has already demonstrated that health financing reforms can be associated with significant risks. Once the range of issues and policy options have been fully explored, it is likely that policymakers and the international development community will have to face difficult choices, some requiring that they depart from historical ideological and institutional positions.

Notably, on the revenue side past analysis already concludes that more resources are needed to address the health related MDGs. Yet, many countries have a binding fiscal space constraint. Expansion in public funding for the health sector must be balanced by other public expenditure programs that have a positive impact on health and overall human development. Furthermore, programs that rely on payroll taxes can have an adverse impact on labor cost and international competitiveness. And, large public sector spending program are vulnerable to corruption. A better understanding of these issues will allow policy makers to introduce mitigating policies such as balancing increases in the health budget with reductions in other public sector expenditure programs, sound labor market policies, accountability mechanisms that transparency in public sector management and mobilizing effective private sources of financing in addition to the public funding. Some of policies will politically unpopular.

On the expenditure side, although there is good evidence that more money is needed to achieve the MDGs and other health-related goals scarce, resources can easily be wasted without achieving desired outcomes in terms of health and financial protection. Many governments are reluctant to spend public money on private providers, thereby duplicating services that may

already be available in the private or NGO sectors. Yet without appropriate incentives such public services often provide low quality and inefficient care. Furthermore, government subsidized services often benefit higher income groups more than the poor. Likewise in the private sector, more money does not necessarily mean effective care and poor populations are exposed to significant financial risk unless such resources are channeled through some form of insurance mechanism. There are known mitigating policies to most of these problems.

### **OBJECTIVES OF THE PRE CONFERENCE SESSION ON HEALTH FINANCING**

Although much is known about the issues and policy options for improving health financing in other regions and higher income levels, there is still a considerable knowledge gap on how best to approach this challenge in the context of the low-income levels and weak institutional capacity. The overall goal of the pre conference session on health care financing will be to deepen understanding about how to secure:

- more fiscally sustainable sources of funding for the health sector;
- improved management of financial vulnerability; and
- better value for money spent on health care

### **STEERING GROUP**

A steering group to prepare the meeting would comprise representation from World Bank, WHO, ILO, UNICEF, OECD and the Global Task Force on Health Care Financing. The meeting is hosted by DANIDA.

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