

# BUDGET MATTERS FOR HEALTH: KEY FORMULATION AND CLASSIFICATION ISSUES



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World Health  
Organization

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## Key Messages

- Robust public budgeting in the health sector is a necessary condition to enable the effective implementation of health financing reforms towards universal health coverage.
- Moving from input-based budgeting to health budgets that are formulated and executed on the basis of goal-oriented programmes can help build stronger linkages between budget allocations and sector priorities. This can also enable the implementation of strategic purchasing and incentivize accountability for sector performance.
- While budget classification reforms relate to overall fiscal management, health ministries have a critical role in defining the scope, content and coverage of budgetary programmes as a unique way to better align allocations with sector needs.
- The process, design and implementation of programme-based budgeting reforms in the health sector have varied greatly both between and within countries. Country budgets vary in terms of the relevance of budgetary programmes definition, their scope and structure, as well as the quality of performance monitoring frameworks.
- Despite past reform efforts, many countries plan health budgets by programmes but continue to spend by inputs. Several countries use hybrid or dual budget classification systems that mix health inputs, programmes and other classification methods, making it more complex to pool resources, spend and strategically purchase health services.
- Institutionalizing budget formulation changes alone is not enough. It should be coordinated with other elements of overall public financial management reform (e.g. multi-year budgeting, cash management, financial information and reporting systems) to ensure that changes in budget formulation are consistent with the rest of the financial management system.
- The interplay between budget classification systems and provider contracting and payment arrangements is a key issue from a health financing perspective. A change in budget formulation is likely to be one of the necessary conditions for implementing strategic purchasing of health services.
- The introduction of programme budgeting should be sequenced appropriately in the health sector, especially where basic public financial management foundations are not in place to safeguard against the misuse of public resources in the sector.

# 1. INTRODUCTION

**No country has made significant progress towards universal health coverage (UHC) without relying on a dominant share of public funds to finance health [1, 2].** Framing the approach to health financing policy in this way places the health sector within the overall public budgeting system and underscores the crucial role that the budget plays, or should play, for UHC. Historically, the health financing dialogue has been largely driven by demands to raise revenues and find new sources of funds [3], with much less discussion of overall public sector financial management and budgeting issues.

**An understanding of the core principles of public budgeting is essential** for those who have an active interest in health financing reforms. The budget is a primary instrument for strategic resource allocation [4]. Even in contexts where health insurance funds manage a core part of health expenditure, regular budgeting rules may continue to influence the flows of funds in health systems and the transfers to purchasing agencies and/or health facilities [5].

**However, there is limited understanding of public budgeting rules, processes and practices among health sector stakeholders.** Beyond planning and budgeting units of health ministries, public budgeting is often perceived as complex, opaque, disconnected from health sector priorities, and handled directly by finance authorities. This perception, coupled with inherent health sector-specific challenges – e.g. uncertainty and difficulty in planning needs, poor quality cost estimates, fragmentation in funding

sources and schemes – has contributed to low quality public budgeting processes in health in low- and middle- income countries (LMICs) [4, 6].

**There is increased acceptance by governments that budget preparation is an important health sector concern.** While countries differ in the size and scope of their budgeting challenges, more revenue for the health sector will not help achieve the UHC goals if well-functioning budgeting systems are not in place. Specifically, budget formulation – i.e. the way budget allocations are presented, organized and classified in budget laws and related documents – has a direct impact on actual spending and ultimately on the performance of the sector.

**This policy brief aims to raise awareness on the role of public budgeting – specifically aspects of budget formulation – for non-PFM specialists working in health.** As part of an overall WHO programme of work on Budgeting in Health, it will help clarify the characteristics and implications of various budgeting approaches for the health sector. It addresses the following main questions:

- What are the main budget classifications and how do they apply to health?
- What can a robust public budgeting system bring to the health sector?
- What do we know about the transition to programme-based budgeting in health?
- What are the key considerations and good practices to address health sector-specific challenges when reforming budget formulation?



## 2. DEFINING AND USING A COMMON TERMINOLOGY

**Public budgeting is the process by which governments prepare and approve their strategic allocations of public resources** (Box 1). From the perspective of public financial management (PFM), robust public budgeting serves several important functions: it sets expenditure ceilings, promotes fiscal discipline and financial accountability, and enhances efficiency in public spending [7]. The key features of a well-functioning budgeting system typically include: 1) multi-year programming; 2) policy-based allocation definition; 3) sector coordination for budget formulation; 4) realistic and credible estimates of costs; and 5) an open and transparent consultation process [8].

**The “health budget” – as defined in this paper – refers to allocations to Ministries of Health, their attached agencies and to other Ministries involved in the delivery of**

**health-related expenditures.**<sup>1</sup> Purchasing entities, if any, typically have various levels of institutional and financial autonomy. For instance, health insurance funds are often placed outside regular budget processes, with the intent to protect agencies’ revenues and increase flexibility in resource use to purchase needed services. Such separate arrangements frequently follow different legal frameworks, and may have their own budgeting processes, expenditure classification and

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1 Budgets from other ministries, such as finance, social affairs, defense, education, etc may also include health-related expenditure. Specific health programmes or activities can also be managed by, and integrated into, the budget of the President or Prime Minister’s office or received transfers from ministries of finance or local governments. Thus, the budget of the health sector is in general broader than that of the Ministry of Health.

### Box 1: Budget preparation process: role of ministries of finance and health

The annual budget is a key public policy document that sets out a government’s intentions for raising revenue and using public resources to achieve national policy priorities. Every year, as part of the budget preparation process, finance authorities normally communicate budget ceilings to

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