

# Fiscal space, public finance management and health financing

A collaborative agenda

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## AGREED COLLABORATIVE AGENDA: WORKSTREAMS AND PRIORITY ISSUES

Work-stream area	Priority issues
<b>1) Health financing, fiscal sustainability, and public finance management: aligning for implementation</b>	<ul style="list-style-type: none"> <li>a) Improve communication between Ministries of Health and Finance to strengthen capacity and mutual understanding of health financing, fiscal sustainability, and public finance management concepts and practices, engaging with the public finance/PFM community and avoiding “reinventing the wheel”.</li> <li>b) Improve alignment of health financing policy reforms (in particular desired changes to the way health services are purchased), and public finance concepts and management rules, including budget formulation, execution and accounting/financial reporting.</li> <li>c) Develop normative guidance, identify policy issues, and explore country experience with regard to key issues in PFM and the implementation of health financing and wider health system reforms</li> </ul>
<b>2) Benchmarking and targets, fiscal space, and health spending projections</b>	<ul style="list-style-type: none"> <li>a) Develop a more robust basis for health expenditure targets and benchmark health system and fiscal indicators, to ensure credibility and clear policy messages, consonant with internationally accepted norms</li> <li>b) Review different approaches to modelling and types of models used for fiscal space / health expenditure analysis and projections, and clarify the appropriate context for their respective uses</li> </ul>
<b>3) Integrating global health initiatives with health financing policy</b>	<ul style="list-style-type: none"> <li>a) Detail the issues arising from countries about to graduate from intensive support under various global health programmes and propose key issues for discussion amongst governments agencies, CSOs, and international partners</li> <li>b) Facilitate sharing and methodological harmonization of fiscal space and “investment case” analyses conducted by different agencies and programmes</li> </ul>
<b>4) Development of “health and budget officials” networks and improve understanding of health budgeting practices</b>	<ul style="list-style-type: none"> <li>a) Improve collaboration between health and budget officials to further understanding of issues with a view to improving health service delivery</li> <li>b) Improve understanding of budget practices and issues for health system reforms in different regional contexts</li> <li>c) Improve understanding of the political economy of budget practices in selected countries</li> </ul>

## Introduction

Public budget revenues are central to financing progress towards universal health coverage (UHC) in low and middle income countries (LMICs). Given the relatively small size of the formal sector in most LMICs, it is general budget revenues (mainly sourced from indirect taxes) rather than direct contributions for health coverage that must play the leading role. This is reflected in the growing number of cases of budget-funded coverage expansions in which the government either fully or largely covers the cost of contribution in LMICs such as Thailand, Mexico, Rwanda, China, Kyrgyzstan, Moldova, India, and elsewhere. While these countries have increased their public spending for health, they are not merely channelling larger amounts into existing supply-side budgets, because rigidities in public finance systems often constrain the efficient use of such revenues. Improving the capacity of national health authorities (typically represented by the Ministry of Health) to engage more effectively with national budgetary authorities (typically the Ministry of Finance)<sup>1</sup> is essential to make progress on critical issues related to both the level of funds to be provided and the flexibility with which such funds can be used – while concurrently ensuring accountability for the use of these funds.

Motivated by this experience, WHO's Department of Health Systems Governance and Financing convened a meeting on fiscal space, public finance management and health financing policy in December 2014, building on existing work and dialog on these issues with partner agencies in recent years. The aims of the meeting were to:

- 1) Identify priority issues and related products and processes as the basis for a jointly agreed work programme on fiscal policy, public finance management (PFM), and health financing for UHC; and
- 2) Generate technical inputs to improve the methodologies used for projections of fiscal space for health, including for the OneHealth Tool.

A number of partner agencies, foundations and initiatives participated in the meeting and agreed to be engaged in specific areas of follow-on work. These included the UK Department for International Development (DFID), the World Bank, Bill & Melinda Gates Foundation (BMGF), the Organization for Economic Cooperation and Development (OECD), the Global Fund to Fight AIDS, TB and Malaria, GAVI Alliance, UNAIDS, the US President's Emergency Plan for AIDS Relief (PEPFAR), the Collaborative Africa Budget Reform Initiative (CABRI), the Australia-Indonesia Partnership in Health Systems Strengthening (AIPHSS, funded by the Australian Department of Foreign Affairs and Trade (DFAT)), Save the Children Fund (UK), Results for Development Institute, the Health Finance and Governance Project funded by the US Agency for International Development (USAID) and managed by Abt Associates, and Oxford Policy Management. To ensure that the discussions and follow on work reflected country needs, several representatives of national health and finance ministries as well as other relevant government and other public agencies were present and participated actively

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<sup>1</sup> While using the terms "Ministry of Health" (MOH) and "Ministry of Finance" (MOF) during the meeting, it is important to note that more broadly we are concerned with the issues arising between national health agencies and the authorities responsible for raising public funds, planning, and making budgetary allocation decisions. The actual names for each will vary across countries according to their specific institutional setup. In some countries, the health authorities and agencies may be a MOH, a Ministry of Social Affairs, a national health insurance fund, and so forth. The national finance and budget authorities may include the MOF, a separate Planning Agency, a "Ministry of Economy" or "Economic Planning", as well as higher levels of government such as the Presidential Administration or Prime Ministers' office, etc. Hereafter in the report, we use the term "MOH" for the health authorities and "MOF" as a short-hand for the wide array of national authorities responsible for fiscal policy, planning and execution/allocation of public spending, and expenditure reporting.

in the meeting. The countries represented in the meeting included the following: Burundi, Chile, Ghana, Indonesia, Korea, Lao PDR, the Netherlands, Philippines, South Africa, and Tanzania. The full list of participants in the meeting can be found in Appendix 1.

Participants discussed conceptual and practical issues with regard to fiscal policy, public finance management, and their relation to health financing for UHC. Time was also devoted to identifying common issues and challenges for disease-specific funders in transitioning to greater national funding and management of the services and interventions that they support, thereby increasing the probability of sustainability upon “graduation” or phase-out of aid. More specifically, the participants considered methods for improving projections of public funding for health, and identified critical topics for further work (the “collaborative agenda”) that partner agencies may support on the interactions between health financing, fiscal policy and public sector financial management.

The report captures the main points of the presentations<sup>2</sup> and discussions and is organized according to the structure of the agenda for the first two days of the meeting (the agenda can be found in Appendix 2). The third day of the meeting involved reflections on the issues raised on days one and two; points from these reflections are integrated into the notes on the earlier sessions. The meeting concluded with the agreement on the priority issues, together with indicative “product areas” to take the work forward for the collaborative agenda. This is summarized in the table immediately after this section.

Prior to initiation or commissioning of follow-on work, and where deemed necessary, it is proposed to establish small teams to further develop and oversee progress on specific products. The types of outputs to be produced have not been fully specified, but are likely to include some a mix of the following:

- concept papers;
- issues papers;
- evidence/experience reviews;
- country case studies;
- country applied work, often as part of ongoing country support;
- capacity strengthening;
- information generation; and
- networks/meetings

The product areas highlighted in the following table are mostly topics, but in some instances, specific products or types of products were discussed during the meeting or in subsequent interactions with partners. To ensure both progress and coordination on the implementation of the collaborative agenda, it is necessary to establish a small multi-agency group that will be responsible for developing and maintaining an overall map of the planned activities in related areas.

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<sup>2</sup> The presentations in pdf format can be found on the meeting webpage: [http://www.who.int/health\\_financing/partner\\_agencies/Montreux/en/](http://www.who.int/health_financing/partner_agencies/Montreux/en/).

## Detailed collaborative agenda on health financing policy, fiscal space and public finance management issues in support of UHC, with indicative product areas

Work-stream area	Priority issues	Indicative product areas
<b>1) Health financing, fiscal sustainability, and public finance management: aligning for implementation</b>	a) Improve communication between Ministries of Health and Finance to strengthen capacity and mutual understanding of health financing and public finance management concepts and practices, engaging with the public finance/PFM community and avoiding “reinventing the wheel”.	<ul style="list-style-type: none"> <li>i. Develop a lexicon/glossary of terms to help standardize language and terminology</li> <li>ii. Flesh out the concept of fiscal sustainability in the health sector</li> <li>iii. Issues paper: how to establish “rules of the game”, including default decision-making processes, for dialog between health and finance authorities on a range of topics related to the budgeting cycle.</li> <li>iv. Identify existing / develop tools and good practices for diagnostics around relationship between public finance management and health financing systems and integrate in collaborative country engagement.</li> <li>v. Write papers on topics of earmarking, offsets, and the impact on overall prioritization of public spending; introduction of sin taxes, and predictable and sustainable levels of public spending on health – based on a review of positive and negative examples, identification of stated/perceived objectives, linking to non-financial indicators and incorporating a comprehensive public finance conceptual and implementation perspective, in particular looking at the interaction of any new revenues with existing revenues and expenditures (and a reminder to engage with the IMF on these issues)</li> </ul>
	b) Improve alignment of health financing policy reforms (in particular desired changes to the way health services are purchased), and public finance concepts and management rules, including budget formulation, execution and accounting/financial reporting.	<ul style="list-style-type: none"> <li>i. Develop options to address obstacles and improve alignment of health purchasing and public finance management (e.g. shift to output-based budgeting, or payment) based on case studies of practices (good and bad) related to budget formulation, provider payment, accounting and financial reporting, internal controls etc. in the context of existing PFM frameworks.</li> <li>ii. Analysis of issues and country experience with incorporation (or not) of personnel costs (salaries) into output-based payment systems</li> <li>iii. Issues paper and country cases distinguishing the role of social health insurance as a source of funds from the role of SHI agencies as an institutional approach to PFM constraints on the use of general budget revenues in pooling and purchasing reforms.</li> </ul>

Work-stream area	Priority issues	Indicative product areas
		<p>iv. Issues paper, country case studies and applied work highlighting challenges and opportunities posed by decentralization for health financing reform – PFM issues, interactions with SHI funds, etc.</p> <p>v. Case studies and applied country work to identify operational issues at provider level that constrain the ability to implement or benefit from a shift towards output-based payment methods, particularly in the public sector.</p>
	c) Develop normative guidance, identify policy issues, and explore country experience with regard to key issues in PFM and the implementation of health financing and wider health system reforms	<p>i. Normative paper on functional specification and needed capacities in health financing and service delivery (i.e. at what level – central, regional, district, sub-district, facility – are specific functions best performed) to support health policy response to fiscal and administrative decentralization</p> <p>ii. Conceptual and issues papers providing PFM perspective on elements of good practice in the health sector and major challenges at country level.</p> <p>iii. Papers and country studies on issues, challenges and opportunities for implementing pooling and purchasing reforms in the context of (a) decentralized governance; (b) getting balance right in terms of autonomy and accountability of providers; (c) fragmentation from separating pooling and purchasing arrangements by revenue stream; (d) establishment of purchasing agencies in a number of low &amp; middle income countries, with a focus on implications for public finance policy</p> <p>ems and progress in terms of UHC; and s for the disposition of efficiency gains in :o Treasury).</p> <p>benchmark indicators based on a robust, licators to achievement of UHC outcomes.</p>

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