TECHNICAL BRIEF

How Revenue Retention and Utilization Reform is Important in Mobilizing Revenue and Improving Service Quality at Health Facilities in Ethiopia

The USAID-funded HSFR/HFG project provides technical assistance to the Government of Ethiopia to implement and scale-up health care financing reforms across the country. The goal is to increase access to and utilization of health services through improved quality of health care and reduced financial barriers.

Project objectives are to:

- *Improve the quality of health services*
- *Improve access to health services*
- *Improve governance of health insurance and health services*
- *Improve program learning*

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CONTEXT

Prior to the endorsement of Ethiopia's Health Care Financing Strategy, underfinancing of the health sector was a major contributor to the deterioration of the quality and efficiency of health service delivery. There was little government spending on infrastructure and human resources development, and the government-allocated operational budget for medical equipment, drugs, and medical supplies was insufficient to meet health facility daily needs. Despite the long tradition of charging user fees for health services, health facilities collected little revenue, because the fees had not been revised to keep up with facility costs, and a significant number of patients did not pay because they had been approved for free services by their local government (before the fee waiver program was in place). Also, however negligible their fee revenue was, health facilities were required to remit all of it to the then Bureau of Finance and Economic Development (BOFED)/Ministry of Finance and Economic Development. Thus, facilities had no incentive to work toward mobilizing more resources from user fees. Moreover, facilities had no authority to decide how to use their government-allocated budget to best address their facility priorities and community health needs.

THE ROLE OF REVENUE RETENTION AND UTILIZATION

Cognizant of the dire consequences that poor-quality services, inadequate and inequitable distribution of health sector resources, and resulting low utilization would have, in 1998 the Ethiopian government adopted a Health Care Financing Strategy that included several health care financing (HCF) reforms.[1] Revenue retention and utilization (RRU) is the most prominent of the predominantly supply-side reforms. By mobilizing financial resources additional to the government budget, this reform – if properly managed – can bring about substantial improvement in the health service delivery system.

The RRU reform allows public hospitals and health centers to collect, retain, and use their user fee revenue for prioritized quality improvement activities. The revenue collected from legally designated sources is deposited in a separate bank account and used to procure drugs, medical supplies, and medical equipment, and to undertake other activities that have a direct impact on the quality of services. Revenue collected and retained must be approved before use together with the treasury budget every fiscal year. Each region's legal frameworks clearly stipulate that the budget allocated from retained revenue is additional to a health facility's treasury budget. Health facilities are also required to establish a financial management system to ensure that their resources are efficiently and effectively used in line with set objectives.

Before the RRU reform was piloted in 2005, two important interventions were initiated to address the underfinancing issue. Based on lessons drawn from the experiences of the Revolving Drug Fund, in 2003 the Special Pharmacy Project was launched in 150 and later expanded to 278 health facilities in Amhara, Oromia, Southern Nations and Nationalities Peoples (SNNP), and Tigray regions.[2] A second intervention, region-specific but equally important in terms of learning, was the Retention Policy implemented in SNNP.[3]

The policy allowed hospitals in the region to retain 50 percent of their fee revenue and use it to improve the quality of their health service delivery. By mobilizing additional revenue for health facilities, these initiatives contributed to improving service delivery. Lessons drawn from the interventions set the direction for the design and implementation of today's RRU reform.

Following the ratification of the Health Service Delivery and Administration proclamations in Amhara, SNNP, and Oromia regions in 2004 and 2005, 96 health facilities in several woredas of these three regions were selected and RRU implementation was piloted.[4] Assessments of the pilot facilities were conducted to elicit evidence on the progress, performance, and status of the reform implementation. Drawing lessons from pilot experience, the reform has since been scaled up, expanded, and consolidated across all regions in Ethiopia.

The RRU reform sets forth the legal basis for health facilities to retain revenue from clearly defined sources, deposit it in a separate bank account, and flexibly use it for prioritized needs. The government has developed a "positives" list that includes items/activities that have direct relevance to quality improvement and that health facilities need to give priority to in budget allocation and in use, for example, drugs and medical supplies, medical equipment, infrastructure, construction, and renovation. Since facilities can more flexibly use their resources, they can use them to procure critically and urgently needed commodities and services, when needed. As part of the reform, the organizational structure of health facilities has been restructured to include key finance positions to enable proper administration of funds. This benefits overall public financial management at health facilities. The reform also helps facilities to establish appropriate financial management systems, and exercise better planning and more efficient use of resources.

The RRU reform also incentivizes health facilities to capitalize on legitimate opportunities to raise increasing amounts of funds from the services they provide. For example, expanding the range of diagnostic and imaging services and mobilizing additional resources from non-medical sources.

[1] *Federal Democratic Republic of Ethiopia Ministry of Health. 1998. Health Care Financing Strategy. Addis Ababa.*

[2] *Federal Democratic Republic of Ethiopia Ministry of Health. 2008. Special Pharmacy Impact Assessment Survey Report. Addis Ababa.*

[3] *HCF Secretariat. 2002. The Policy of Retention and Its Implementation in SNNPR: The Experience of Government Hospitals, Study Report No. 4. Addis Ababa.*

[4] *HCF Secretariat. 2002. The Policy of Retention. Addis Ababa.*

KEY RRU CAPACITY-BUILDING ACTIVITIES

The Federal Ministry of Health (FMOH), nine regional governments, and the country's two city administrations have worked to implement and institutionalize HCF reforms. Building implementation capacity is one of the key interventions for proper reform implementation. Therefore, a range of capacity-building activities have been undertaken (and continue) at various levels of the health system.

Key finance personnel: With the commencement of RRU, every public health facility is allowed to hire key finance staff. The number of staff varies based on the level and type of health facility and volume of work. The rural health center has three finance staff: an accountant, a cashier, and a daily cash collector. Specialized/referral hospitals have, on average, as many as 25 finance staff. In view of this, technical assistance has been provided to regional authorities and health facilities to create and fill key finance positions in each facility with qualified personnel. In addition, their financial management capacity has been improved through the provision of training in planning and budget execution of RRU, and in the framework of the government modified cash-based system of accounting.

Governing boards and management committees: Hospital boards and health center management committees are the decision-making authority for the overall functions of a health facility. Members are provided with new and refresher training on HCF reform, including the main provisions of the law and the roles and responsibilities of the board/committee in implementing reform. These efforts enhance decentralized decision making at the facility level, and help boards/committees provide strategic leadership for successful implementation of HCF reforms in general and RRU in particular.

Supportive supervision: Supportive supervision informs government decision making by generating data on the health sector financial landscape and the status of HCF reform implementation. It also provides an opportunity for on-site technical assistance to be provided. Regular supportive supervision (SS) and integrated supportive supervision (ISS) are conducted. SS is typically conducted by a team of experts drawn from regional health bureaus (RHBs), zonal health offices/departments, and technical assistance counterparts. A standard checklist is used to generate basic data on selected indicators of the reform. During the supervision visit, the team also provides health facility staff site-level technical assistance on financial record keeping and overall financial management. ISS is designed to generate data on various health programs, reforms, and initiatives more broadly. SS and ISS data are organized and analyzed to track the status of reform implementation status and to identify challenges to be addressed to enhance future implementation.

Review meetings: Various annual and biannual review meetings are conducted with several stakeholders. During zonal review meetings, reform implementation performance is reviewed, experiences and challenges are shared, and directions for next steps are set and communicated. Participants typically include the RHB officials, zone and woreda administrators, health facility leaders, and partners. Auditors' annual review meetings help health facilities to comply with government financial regulations and procedures in collecting and utilizing revenue, and to take timely corrective actions if irregularities occur. During the meeting, officials review technical support provided by auditors to health facilities to prevent irregularities and legal actions based on audit findings. They also provide guidance on measures to be taken for future improvement. The meeting is conducted in the presence of high-level RHB and BOFEC officials. Interestingly, zone finance auditors, in Oromia region for instance, have a separate annual audit plan for RRU, apart from their plan to audit the treasury budget.

A laboratory technologist at Dessie Referral Hospital operates the clinical chemistry machine bought using retained revenue.

(The RRU audit coverage in health facilities has increased over time and is as high as 45 percent in some regions, like Oromia; this supports the concept that review meetings result in improved practices). Lastly, regional stakeholder meetings bring together the main HCF stakeholders, namely, representatives from the RHB, BOFEC, Revenue and Customs Authority, Office of the Regional Auditor General, and the Bureau of Justice to review implementation progress and to further strengthen inter-sectoral collaborative efforts in implementing HCF reforms.

RRU REFORM ACHIEVEMENTS

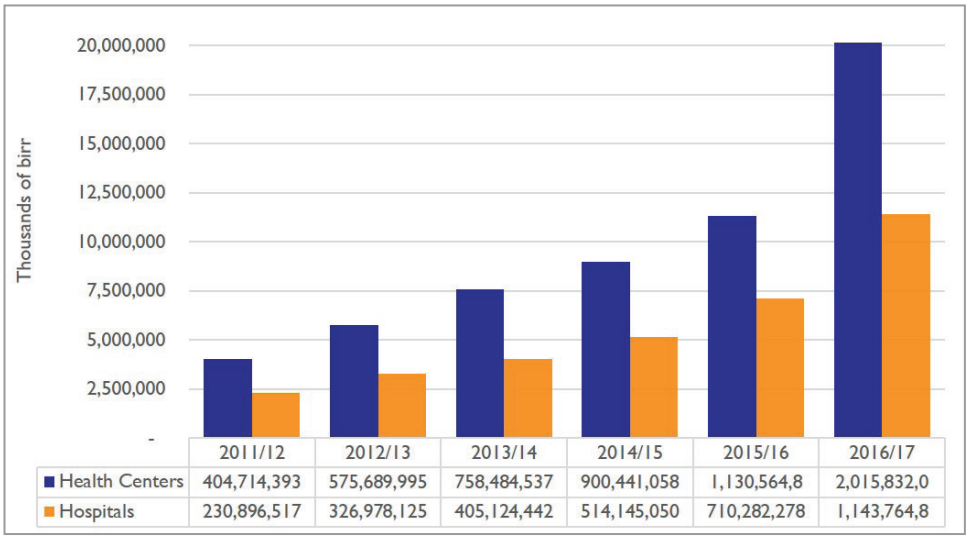
Implementation of the RRU reform has mobilized a substantial amount of resources for the health sector, contributed to improvements in the quality of service delivery at health facilities, and contributed to and benefited from improvements in the health sector's financial management system.

Mobilization of additional financial resources for the health sector

Apart from the treasury-allocated budget, health facilities are allowed to collect, retain, and use revenues generated from individuals (out-of-pocket), third parties (government or private), and insurance schemes under the RRU reform. According to nationally aggregated data collected for the appropriated budgets of health facilities, the annual budgets from RRU for health centers and hospitals have grown on average by 39 percent and 38 percent, respectively, between 2011/12 and 2016/17 (Figure 1).[5] This increment occurred for two major reasons: the increase in the number of health facilities implementing RRU and the improvement in health facilities' revenue collection capacity. Between 2013 and 2017, the total number of health centers implementing RRU grew from 1,442 to 3,332, and the number of hospitals from 103 to 267.

A study conducted by the Ethiopian Economic Association showed that the average annual retained revenue collected in the health facilities increased between 2012 and 2015 from 848,784 birr to 1,059,681 birr. Despite a temporary decline from 2011 to 2012, there has been a steady upward trend after 2012.[6]

Figure 1. Health facility retained revenue allocation budgets



	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Health Centers	404,714,393	575,689,995	758,484,537	900,441,058	1,130,564,8	2,015,832,0
Hospitals	230,896,517	326,978,125	405,124,442	514,145,050	710,282,278	1,143,764,8

Source: Project Database

[5] *Because data on actual revenue collection could not be easily accessed, the appropriated budget from the retained revenue is used as a proxy to illustrate the progress in revenue mobilization. Normally, the appropriated budget is the estimation of the bank balance at the end of the fiscal year and the revenue to be collected in the next fiscal year.*

[6] *Ethiopian Economic Association. 2017. Revenue Retention and Utilization in Improving Quality of Healthcare in Ethiopia. Addis Ababa. The study conducted used a sample of 23 hospitals and 85 health centers*

Improvements in the quality of services

The provision of quality health care services that meet the needs of the clients calls for financial resources adequate enough to make investments in essential equipment, infrastructure, and supplies. Investments made on essential medicines, diagnostic and imaging services, and basic amenities, equipment, and infection control practices raise health facilities' capacity to provide health care services and contribute to increased service uptake. Laying down proper procedures on revenue collection, retention, and use, the RRU reform augments the health facilities' efforts to meet and sustain the operational standards of health service delivery.

Ensuring availability of drugs and medical supplies: Health care consumers perceive the availability of medicines in a health facility as the most important aspect of quality. Recognizing this, health facilities allocate and utilize a substantial amount of their retained revenue to procure drugs and medical supplies, with a special emphasis given to essential medicines (such as antibiotics and oral rehydration salt) that are selected on the basis of public health relevance, efficacy, quality, and affordability.

According to the findings of the supportive supervision conducted in 2016/17, 74.9 percent of health centers' and 93 percent of hospitals' retained revenue were used to keep an adequate and continuous stock of appropriate drugs and medical supplies on hand.[7] A study conducted by the Ethiopian Economic Association indicated that the procurement of medicines consumes nearly 61 percent of the retained revenue generated by health facilities. The utilization of such a high proportion of retained revenue, together with the drug budget allocated from the treasury, resulted in an increase in the availability of essential drugs across all tiers of health care, from 49 percent in 2016 to 67.9 percent in 2017.[8] As reported in patient exit interviews that were part of an assessment of perceived quality that the Ethiopian Economic Association conducted in 2017, the public health facility's pharmacy were able to dispense nearly 82 percent of the prescription papers for drugs, thereby increasingly meeting the quality of care needs of clients.[9]

How health facilities have used RRU to improve drug availability

- *The drug availability rate was 95% in the Felege Hiwot Referral Hospital dispensary and 97% in Bishoftu General Hospital in 2017, where about 70% of the retained revenue is earmarked to procure drugs and medical supplies.*
- *Debre-Zeit Health Center in Benishangul-Gumuz region supported 5 health posts in its cluster with drugs and medical supplies purchased with retained revenue.*

Expanding diagnostic and imaging services: Diagnostic and imaging services are integral parts of the health service delivery system. Using retained revenue, many health facilities have purchased different types of medical equipment and the essential reagents needed to increase service quality and quantity. The modern medical equipment not only enables the facilities to provide good-quality care but also helps them expand the scope of diagnostic tests and imaging services they provide on-site, thereby reducing the referrals they would otherwise make. And by introducing these additional services, they are able to generate still more revenue.

Improving supply of basic utilities and infection prevention practices: The availability of basic amenities such as power, improved water supply, sanitation facilities, and communication equipment are essential to providing health services.[10] Although basic utility expenditures are covered by the government budget, health facilities need to establish back-up systems to sustain water service and electric power at times of interruptions. Health facilities are encouraged to use retained revenue to do this. Health facilities are also required to keep their premises safe and clean as a standard infection prevention precaution. Retained revenue can support risk mitigation by paying for personal protective equipment, detergent and waste disposal materials, and incinerators. In an interview about the importance of RRU for infection prevention, Dr. Abduselam, Medical Director of Bishoftu General Hospital, explained "… formerly, all areas of the hospital could expose you to infection. [But] RRU has helped reduce the risk."

[7] *Ethiopia Health Sector Financing Reform/Health Finance and Governance (HSFR/HFG) Project. May 2018. Synthesis of Data Collected From Health Facilities through Supportive Supervision – HSFR/HFG Project Year 4 (2016/17). Rockville, MD.*

[8] *Federal Democratic Republic of Ethiopia Ministry of Health. 2016. Health and Health Related Indicators 2016. Addis Ababa; Federal Democratic Republic of Ethiopia Ministry of Health. 2017. Health and Health Related Indicators 2017. Addis Ababa.*

[9] *Ethiopian Economic Association. 2017. Revenue Retention and Utilization in Improving Quality of Healthcare in Ethiopia. Addis Ababa.*

[10] *World Health Organization. 2013. Service Availability and Readiness Assessment (SARA) Implementation Guide: An Annual Monitoring System for Service Delivery. Geneva.*

How health facilities have used RRU to purchase diagnostic and treatment tools and equipment

- *Meshualekia Health Center in Addis Ababa purchased a hematology chemistry machine.*
- *Felege Hiwot Referral Hospital in Amhara purchased an MRI, fluoroscopy/digital x-ray, Doppler ultrasound, CT scan, dialysis machine, and electrocardiogram.*
- *In Benishangul-Gumuz, Pawe Hospital purchased a microscope, centrifuges, and chemistry machine, and Debre Zeit Health Center bought a centrifuge.*
- *In Oromia, Bishoftu General Hospital purchased an operating table and physiotherapy machine, and Shashemene Referral Hospital purchased a CT scan, mammography, operating table, oxygen concentrator, and suction machine.*
- *Lemlem Karl Maichew Hospital in Tigray purchased a clinical chemistry machine and a hormone analyzer.*

Hospitals and health centers spend 5.4 percent and 11.5 percent, respectively, of their retained revenue on the construction of additional rooms to avoid congestion in service areas as well as on the renovation of buildings and equipment. Examples include the construction of buildings (Felege Hiwot Hospital in Amhara), wards (Bishoftu General Hospital in Oromia), waiting areas (Woreta Health Center in Amhara), staff residences (Merawi Health Center and Debre Berhan Hospital, both in Amhara), toilets (Meshualekia Health Center in Addis Ababa), and an incinerator (Pawe Hospital in Benishangul-Gumuz).

Enhancing provision of exempted services: Although both regional and federal governments are responsible for covering the costs of ante- and postnatal care and delivery services, they rarely allocate adequate funds to finance the services or reimburse expenses incurred by facilities.[11] Many facility managers recognize the importance of providing maternal health services and therefore use a significant amount of retained revenue resources to pay for these and other exempted services. The main areas of support include purchasing basic albeit expensive commodities such as the Anti-D injection (for pregnant women with Rh-negative blood to protect subsequent pregnancies), renovating and building of rooms where exempted services are delivered, purchasing medical supplies, and establishing waiting rooms for pregnant women. According to the findings of the Ethiopian Economic Association study, the costs of delivery consumed an average 21 percent of health facilities' retained revenue.

Improvements in the financial management system

A good public financial management system is characterized by three dimensions: availability and accessibility of budget information, adherence of budgeting and planning to government policy, and the presence of a strong controlling mechanism that ensures public resources are used effectively and accountably.[12] The RRU reform necessitated improvements in the financial management system and capacities at health facilities to help ensure increased efficiency in financial resource utilization, and hence the effectiveness of RRU reform implementation.

The introduction of the RRU reform gave rise to changes in the financial organizational structure of health facilities (with the introduction of finance staff) and the establishment of cost centers at the health facility level. The reform put in place financial procedures to guide facilities in the steps to follow from budget formulation to execution, in how to manage their budget independently of the woreda health office or RHB, and the required reports to prepare and submit. Regions customized HCF reform implementation and accounting manuals, created key finance positions to staff facilities with qualified personnel, provided ongoing trainings in financial management, and facilitated monitoring and auditing practices. As a result of these interventions, the financial management system has improved in many health facilities.

[11] *Although these maternal health services are part of the exempted service package, woreda administrations are responsible for allocating the required budget.*

[12] *Richard Allen, Richard Hemming, and Barry H. Potter. 2013. The International Handbook of Public Financial Management. New York: Palgrame Macmillan.*

How health facilities have used RRU to improve exempted health services

- *Bishoftu General Hospital in Oromia renovated their antiretroviral drugs therapy clinic.*
- *Shashemene Referral Hospital in Oromia spent over 2 million birr on drugs and medical supplies for maternal and child health services, including Anti-D injection for pregnant women with Rh-negative blood (to protect subsequent pregnancies).*
- *Debre Berhan Hospital in Amhara built a maternity ward and neonatal intensive care unit.*
- *Woreta Health Center in Amhara constructed new rooms in which to provide maternal and child health services.*
- *Mizan Aman Hospital in SNNP developed a multidrug-resistant tuberculosis treatment center.*
- *Mizan Aman Hospital in SNNP and Merawi Health Center in Amhara constructed waiting rooms for pregnant women.*
- *Meshualekia Health Center in Addis Ababa purchased delivery beds and oxygen concentrator equipment.*

Several hospitals and health centers in most regions have become cost centers and they apply the modified cash basis accounting system to the extent that they have been able to administer their government budget, as well as their RRU budget.[13] According to the supportive supervision synthesis report data, the percentage of health centers and hospitals that submitted monthly financial performance reports to the respective government offices had reached 71 percent and 92 percent, respectively. Data from the same report showed that 93 percent of hospitals and 62 percent of health centers were audited in 2015/16.[14]

While these are the overarching results to which the implementation of the RRU reform has contributed a great deal, there are still challenges that require policymakers' attention, including: budget offsetting for operational expenses; shortage of manpower; low utilization of retained revenue, or its use for unintended purposes; inadequate availability of drugs and medical supplies at Ethiopia's Pharmaceuticals Fund and Supply Agency; low coverage of external auditing; and regional and facility disparities in reform implementation.

[13] *Prior to the RRU reform, hospitals and health centers were required to work under a single pool system at the woreda level. Now these hospitals and health centers have cost centers of their own.*

[14] *HSFR/HFG Project. May 2018. Synthesis of Data Collected From Health Facilities through Supportive Supervision – HSFR/HFG Project Year 4 (2016/17). Rockville, MD.*

LESSONS LEARNED

- Retained revenue can be used to improve the quality of publicly provided health services, even in countries like Ethiopia where highly subsidized user fees are in use, if the revenue is supported by adequate budget allocation for operational expenses and is used exclusively for quality improvement purposes.
- Retained revenue has been used to provide maternal health services when the government-allocated budget for these services is inadequate. If a reimbursement mechanism is devised to compensate health facilities, or sufficient budget is earmarked for these services, retained revenue could provide an even more significant contribution to the quality and availability of these services.
- In addition to the amount of retained revenue, its flexible use is crucial for bringing about desired results in health service quality improvement. The mandate given to health facilities to expend revenue on impactful priority activities, including those that cannot be undertaken with treasury budget, is central to ensuring the efficient and effective use of retained revenue.
- Improvements in the financial management system are essential for efficient and effective utilization of the financial resources generated through RRU. Having key HCF personnel in place and their capacity built through trainings in planning and budgeting, procurement procedures, and recording and reporting of financial transactions have played significant roles in putting in place the appropriate financial management system in health facilities.

Shashemene Referral Hospital uses about 70 percent of its retained revenue to purchase drugs and medical supplies.

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