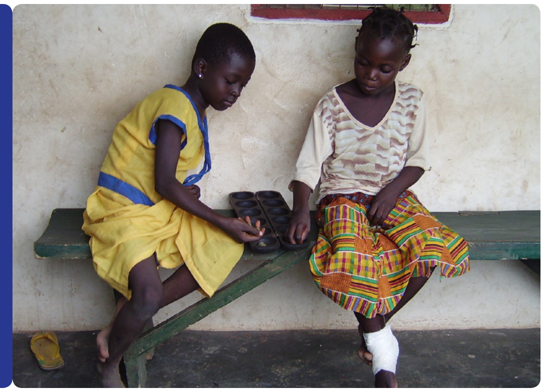
Exploring New Sources of Revenue for Health: Filling the Gap



In low- and middle-income countries (LMICs), many questions remain around how to scale up health systems to reach Universal Health Coverage. Where will the money come from; what financing mechanisms are available to policymakers; and what are the trade-offs that must be taken into account? These are the key questions behind HFG's new publication, "Domestic Innovative Financing for Health: Learning from Country Experience." This report provides a framework for analyzing innovative options for raising additional revenue for health and reviews different countries' experiences with each option. In the context of this report "innovative" options are those that are new for a country and generate additional resources for the health sector. The successes and failures of these approaches provide food for thought as policymakers seek to leverage more resources for health.

Ultimately, there is no clear recipe or ideal mix of domestic innovative financing (DIF) options because each country's context and challenges require tailored solutions. Instead, this report analyzes a set of promising options and presents their benefits and potential pitfalls to inform the debate around how best to fund the health systems of the future. This document is the first of its kind to approach the issue from a specifically domestic, developing country lens, and the first to gather the available evidence in one document.

In addition, the report highlights the potential tradeoffs that inevitably accompany even successful DIF options, and the information is packaged to be accessible and relevant not only to health economists, but also to policymakers and practitioners. At its core, this report should better equip stakeholders in LMICs to analyze their country's domestic financing context and advocate for new financing options that show potential for feasibility and effectiveness.

Inside

The Framework

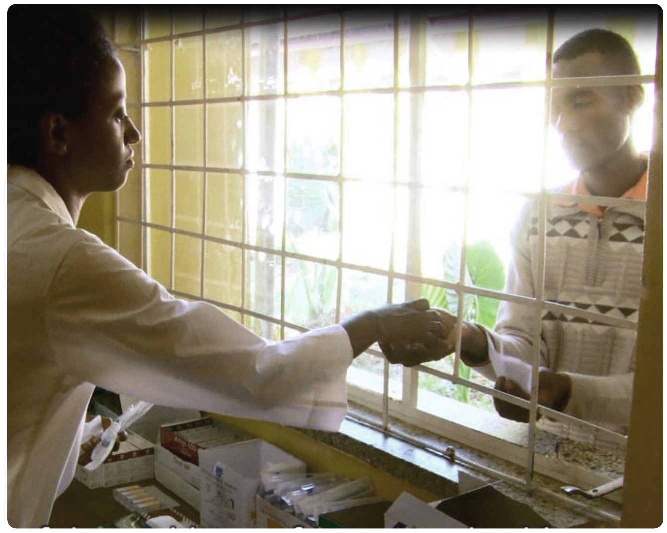
HFG has defined DIF for health as any options that generate new revenue from national sources for the purpose of financing activities with a health objective. It is important to note that what may be innovative in one country may be longstanding practice in another. For each DIF option and country example, the report defines the approach that was utilized and presents the general context in which it was developed. Depending on the availability of evidence, each option was evaluated according to 4 criteria[1]:

Effectiveness and Sustainability: These criteria assess how much revenue the DIF option generated and how much it contributed to generating new revenue as opposed to replacing other resources, as well as the prospects for sustainability of the new revenue stream.

Governance and Efficiency: These criteria assess whether the DIF option has functioned efficiently and what challenges may exist in its governance, answering questions regarding the administrative burden associated with collecting the new revenue, for example, or regarding the potential for corruption and measures to prevent it.

Progressivity and fairness: These criteria discuss the relative burden of introducing a new DIF option on the rich and poor. When designing new mechanisms to generate revenue, it is critical that new policies do not overly burden the vulnerable populations the health system is meant to serve.

Macroeconomic Impact: An assessment of any DIF option must incorporate the potential effects on aspects of the economy beyond the health sector. Any trade-offs associated with particular policy option must be adequately taken into account.



Based on these criteria, the report analyzes a diverse set of country examples, from remittance taxes in Mexico and India to the emergence of a Development Impact Bond for Malaria in Mozambique.

Ghana's Value-added tax (VAT), for instance, provides another example where taxes were used to effectively earmark revenue for health. The National Health Insurance Levy (NHIL) was implemented in 2004, adding 2.5 percent to the existing VAT in order to fund the National Health Insurance Scheme, and since its inception, the NHIL has covered between 60 and 70percent of the NHIS budget (Joint Learning Network 2013). This example, along with others included in the report, highlights how various types of taxes can mobilize significant resources, but they should be used with a careful analysis of their progressivity and their potential effects on the economy.

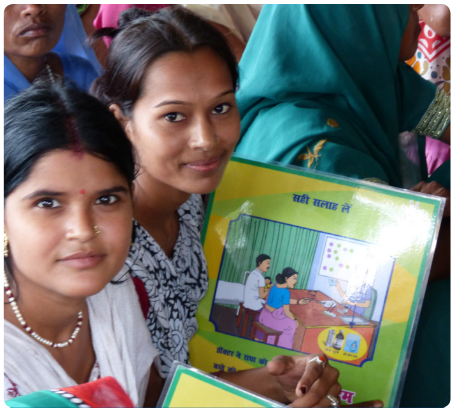
As another example, tobacco excise taxes have long been used to raise revenue for health while simultaneously discouraging tobacco consumption through higher prices. Several countries are experimenting with soft drink taxes to pursue similar financial and health goals.

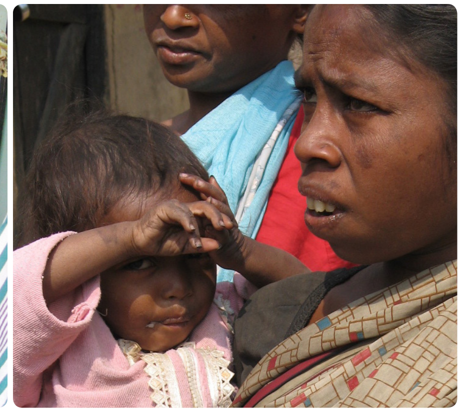
[1] *Criteria were developed upon review of Gottret and Schieber (2006) and Lievens et al. (2012).*

Table 1. Selected Key Points from Assessment of DIF Options

DIF Option	Key Points from Assessment
Crowd-Funding	Can allow entrepreneurs, NGOs, and others access to invest in innovative ideas that otherwise would not have any backing, and in this way provides an important, though, small piece of the puzzle.
Guarantee-Backed Loans	Good way for development partners to facilitate access to short-term loans for commodity purchasing, saving governments expecting donor funds money that otherwise would be spent on high interest rates and drug prices. The use of debt instruments such as this must take into account existing debt burden and potential macroeconomic consequences.
Lotteries	Effective in India's Kerala State in funding a specific government program, though marginal relative to total health funding needs. May have potential for generating more revenue but if scaled up, some revenue gained should be used to invest into addressing problems with gambling addiction that lotteries may contribute to.
Social Impact Bonds	Still too early to assess definitively because no SIB has been evaluated yet. Indications are that SIBs will require significant financial and technical resources to administer but investment in them may pay off.
Turnover Tax on Mobile Phones	Gabon has implemented an effective turnover tax of 10% on mobile phone operators, raising significant revenue that was earmarked for the National Health Insurance System. However, it also negatively affects poor communities not only as a financial burden but also in the lost opportunities for other poverty reducing functions associated with increased mobile phone use.

For example, utilizing a combination of production taxes and import taxes on soft drinks, beer and confectionary, the government of French Polynesia collected nearly $14 million annually, a sum amounting to almost 1% of the government's budget. Since 80 percent of the funds were allocated specifically to health, the taxes were effective in raising additional earmarked revenue for health. DIF options come with their own trade-offs. Table 1 presents a sampling of key points from the analysis of 17 different financing strategies across more than 20 countries.





About HFG
A flagship project of USAID's Office of Health Systems, the Health Finance and Governance (HFG) Project supports its partners in low- and middle-income countries to strengthen the health finance and governance functions of their health systems, expanding access to life-saving health services. The HFG project is a five-year (2012-2017) global health project. To learn more, please visit www.hfgproject.org.

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Conclusions

As countries around the world work to build Universal Health Coverage for their citizens, the questions of how to finance health systems effectively, equitably and efficiently is as important as ever. The report, "Domestic Innovative Financing for Health: Learning from Country Experience," provides important insights into these questions, but they should be interpreted with consideration of the context-specific nature of the experiences as well as the limitations of the available evidence. Furthermore, it is important to remember that initiatives to raise additional revenue are typically embedded in broader health system reform, and this context is critical to assessing the relative potential of different DIF options.

- The goal of any DIF option is to improve the population health and not only ask for more money, but also for more health for the money.
- As with any policy tool, every DIF option involves making trade-offs.
- Domestic ownership is critical for the sustainability of innovative revenue streams.
- Various forms of taxation can generate large amounts of revenue, but these should be used with a careful analysis of their progressivity and their potential effects on the economy. Similarly, the use of debt instruments must take into account existing debt burden and potential macroeconomic consequences.
- Revenue generation is only one piece of the puzzle; making the case to improve population health requires that funds must be used for effective interventions, and they should achieve maximum technical and allocative efficiency.

To read more about the framework and specific country experiences, download the report here: *https://www.hfgproject.org/domestic-innovative-financing-health-learning-country-experience/*

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