Technical assistance in health financing:
Regional perspective

Technical elements to consider in the discussion of health taxes

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Overview

• Core health financing functions and overarching lines of action
• Health taxes and revenue: fiscal space for health
• Pooling and allocation: health taxes and earmarking
• Conclusions and takeaways
Core health financing functions

- **Revenue raising**: Mainly public, aim at a 6% of GDP in a sustainable and equitable manner.

- **Pooling of funds**: Financial risk protection and access to services leaving no one behind.

- **Allocation of resources**: Aligned payment mechanisms and prioritization of the first level of care.

- **Definition of benefits**: Life course approach, progressive expansion, defined clinical pathways.
REVENUE RAISING
Revenue raising

Current health expenditure, % GDP (2020)

Source: Global Health Expenditure Database (WHO, 2023)
Revenue raising

\[
\frac{\text{Public exp. in health}}{\text{GDP}} = \frac{\text{Total public expenditure}}{\text{GDP}} \times \frac{\text{Public exp. in health}}{\text{Total public expenditure}}
\]

Fiscal capacity

Fiscal priority for health

Capacidad fiscal, ALC 2020

Prioridad fiscal salud, ALC 2020

Source: Global Health Expenditure Database (WHO, 2023)
Traditional area of support: fiscal space for health

Sources of fiscal space for health

1. Economic growth
2. Reprioritization of health
3. Increased revenue collection
4. External assistance and borrowing
5. Increased efficiency
Revenues: potential of health taxes

• In the traditional approach health taxes were usually a marginal source of revenue… not much consideration
• Main justification for health taxes might have been to shape behaviors
• However, re-assessing in specific contexts we have found them to have important potential in the short to medium term also as a source of revenue
• The scope for increasing rates and expanding goods and services taxed, varies greatly across countries
• However, for it to be considered a source of fiscal space for health at least a part of the revenue needs to be dedicated to health…
• Question for us: do we need to decide upfront if we want health taxes to reduce consumption OR increased revenue? Can’t it be both?
POOLING AND ALLOCATION OF FUNDS
Pooling of funds

- What we pool in reality are risks: share the risk of illness (and therefore having to pay for care) among a group of people

Fragmentation of financing pools in the Americas

Source: official National Health Accounts Data, from WHO Global Health Expenditure Database
Pooling of funds

• Fragmentation and segmentation go against:
  
  • Equity: coexistence of several pools and barriers to redistribution has important equity implications for people belonging to different pools.
  • Efficiency in resource use: administrative costs (management agencies, regulation, etc.), economies of scale, the insurance function is weakened, therefore:
  • Financial protection
  • Continuity of care and life-course approach to health care
Decisions matter: poor pooling

![Graph showing the relationship between Public expenditure in health as % of GDP and Out of pocket expenditure as % of current health expenditure for various countries. The graph includes a linear trend line and a reference threshold.](image)

- **Out of pocket expenditure as % of current health expenditure**
- **Public expenditure in health as % of GDP**
- **Regional target**
- **Reference threshold**

- **Countries**:
  - HTI, GRD, GTM, HND, TTO, KNA, DMA, MEX, LCA, DOM, ECU, SLV, PAN, ARG, VEN, VCT, DOM, ATG, PER, BRA, BLZ, BHS, SUR, HSI, JAM, URY, COL, CAN, USA, CUB

- **Correlation coefficient**: $R^2 = 0.4952$
• The main policy question shouldn’t be whether we need to spend more OR spend better
• Beyond considerations of good practices in terms of payment mechanisms and allocation in general, the issue with health taxes as a potential source of fiscal space for health is related to earmarking
• What’s earmarking:

“Revenue earmarking means ring-fencing, or protecting, all or a portion of a tax or other revenue source for a particular purpose. Revenue earmarking for health dictates what proportion of a specific revenue source should be allocated to the health sector in general or to a specific health programme, population or service” (WHO 2017)

• Several arguments for and against earmarking…
• In general, ministries of finance will be against earmarking for reasons of expenditure flexibility and macro-fiscal management
• Health authorities usually have less to say in this respect
• However, many countries are using some form of earmarking…
Allocation of resources

The concept of Public Finance Management (PFM)

“PFM is concerned with the laws, organizations, systems and procedures available to governments wanting to secure and use resources effectively, efficiently and transparently. While PFM encompasses taxes and other government revenue, borrowing and debt management, its main focus is expenditure management, especially in the context of public budgeting”.

Earmarking is often a political choice to signal and protect a priority. But it is also closely tied to a country’s public financial management (PFM) (...) Earmarking can sometimes arise out of the failure of PFM systems to generate budget allocations that match policy priorities. In these cases, earmarking can improve the allocative efficiency of the budget (putting limited resources to their highest-value use).


Main takeaways

• Health taxation policy is inextricably related to overall macro-fiscal policy and should also be though of as part of national health financing strategies.
• Also, each countries’ PFM system can be a facilitator or a barrier to implementation and to using these funds: many of these issues are decided well beyond the health sector.
• However, for health taxes to represent a source of revenue to fund our (underfunded) health systems we need to at least discuss earmarking.
• Probably… having to ourselves decide whether we are pursing revenue VS behavioral change objectives will not be the most conducive.
• Use our mandates, especially those that are binding!
• Work together within health and across sectors.
Thank you!