Earmarking for the health sector: Experience and considerations

Danielle Bloom, World Bank

May 12, 2022
WHAT IS EARMARKING?

Earmarking: Dedicating all or a portion of revenue from a specific source and setting it aside for a designated purpose

Distinct objectives of earmarking for health:

✓ Support political priorities
✓ Generate revenues for the general budget
✓ Instigate a behavioural/public health response
✓ Generate revenues for the health sector

Increasing prominence of earmarking as a proposed source of revenue for health... but does it serve that purpose?
### TO EARMARK OR NOT TO EARMARK

<table>
<thead>
<tr>
<th>ARGUMENTS FOR</th>
<th>ARGUMENTS AGAINST</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue protection</strong></td>
<td><strong>Budget rigidity</strong></td>
</tr>
<tr>
<td>Earmarking can protect funding for a specific programme or service by ring-fencing it from competing political interests and bypassing budgetary constraints.</td>
<td>Earmarking creates rigidities in the budget that can lead to inefficient allocation of resources.</td>
</tr>
<tr>
<td><strong>Efficiency</strong></td>
<td><strong>Economic distortion</strong></td>
</tr>
<tr>
<td>Linking taxation more closely to benefits can increase the efficiency of public expenditure.</td>
<td>Earmarking can lead to distortions in the overall economy.</td>
</tr>
<tr>
<td><strong>Public support</strong></td>
<td><strong>Procyclicality</strong></td>
</tr>
<tr>
<td>Linking taxation more closely to benefits can soften public resistance to taxation.</td>
<td>Earmarked revenues are inherently procyclical and therefore susceptible to booms and busts. They can reduce government flexibility in managing economic downturns.</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td><strong>Fragmentation</strong></td>
</tr>
<tr>
<td>Linking taxation more closely to benefits can increase accountability.</td>
<td>In the case of health financing, separating health care from other areas of public spending can limit coordination across social sectors.</td>
</tr>
<tr>
<td><strong>Cost awareness</strong></td>
<td><strong>Decreased equity</strong></td>
</tr>
<tr>
<td>Earmarking can help educate the public about the cost of a particular programme or service.</td>
<td>Equity may decrease if what is paid by individuals narrowly defines their access to benefits, with no cross-subsidies.</td>
</tr>
<tr>
<td><strong>Flexibility</strong></td>
<td><strong>Susceptibility to special interests</strong></td>
</tr>
<tr>
<td>Earmarking can allow funds to be used more flexibly (for example, by keeping the funds off-budget and thereby avoiding restrictions that limit pooling and purchasing arrangements).</td>
<td>Earmarked revenues can be particularly susceptible to the influence of health groups and professional lobbies.</td>
</tr>
</tbody>
</table>
WHO- R4D Working Paper on Earmarking for Health: From Theory to Practice

- **Earmarking typology** to tease out features of design, implementation, and results

- Review of literature, published examples, and 6 **country case studies** of different types of earmarks for health (Estonia, Ghana, Indonesia, Philippines, South Africa, Vietnam)

- **JLN database** including 80 identified as having documented policies that earmark revenues or expenditures for health

62 countries earmark payroll taxes for social insurance contributions (but decreasing as a share of revenue)

4 countries earmark a portion of VAT

General revenue
Earmarked shares of general revenue (2 countries), inter-governmental transfers (3 countries)

35 countries earmark tobacco taxes

21 countries earmark other health taxes

Other instruments
Lotteries, mobile phone companies, and foreign personal money transfers
### CONSIDERATIONS FOR HEALTH FINANCING AND UHC

<table>
<thead>
<tr>
<th>Adoption</th>
<th>Design</th>
<th>Implementation</th>
<th>Results</th>
</tr>
</thead>
</table>
| - Objectives and timing matter | - Softer is better  
- Source matters | - Flexible but strong revenue/expenditure link  
- Clear time horizon required  
- Not too broad, not too narrow | - Can align political priorities with financing priorities  
- Does not guarantee more money for health |

**Adoption**
- Objectives and timing matter
- Source matters

**Design**
- Softer is better
- Clear time horizon required
- Not too broad, not too narrow

**Implementation**
- Flexible but strong revenue/expenditure link
- Release valve for emerging priorities
- Need for strong PFM and governance

**Results**
- Can align political priorities with financing priorities
- Does not guarantee more money for health
EARMARKING IN GHANA - MORE REVENUE FOR HEALTH?

Domestic public spending on health in Ghana

- Constant 2017 US$
- Percentage of GDP

Per capita (left axis) vs. Share of GDP (right axis)

Note: Vertical red line indicates when National Health Insurance Scheme was established.
**Example: Panama Tobacco Earmark (2009)**

- 50% of tobacco tax revenues collected go to:
  - 40% - National Institute of Oncology - 40%
  - MOH for cessation services, capacity building, diagnostic support (70%); and regional activities in tobacco (23.4% for WHO FCTC) – 40%
  - Customs to fight illicit trade - 20%

- Impact:
  - Between 2007 and 2013, tobacco use decreased from 9.4% to 6.4% (Due to taxation and other factors)
  - Reduced affordability regulated smuggling
  - Between 2009 and 2014, incremental tax revenue more than doubled

Cashin et al 2017; OECD 2020; WHO, 2016; Chao 2013

As of 2018, 14 countries earmarked for health in LAC across a variety of sources: payroll tax, SSBs, alcohol, tobacco, and other consumption.

More is needed to understand potential impacts across the region around earmarking practices for health, including how funds are managed and impacts on sustainability.
CHECKLIST FOR POLICYMAKERS

Support for the expenditure purpose
- Does the policy or programme to be funded with the earmark support the country’s broader development objectives?
- Does the policy or programme to be funded with the earmark have broad-based support and commitment from politicians, policy-makers and the public?
- Were finance authorities part of the discussions from an early stage?

Definition of the expenditure purpose
- Is the policy or programme to be funded with the earmark defined narrowly enough for the earmark to be enforced and broadly enough to be flexible?
- Does the expenditure purpose help advance certain health sector priorities without detracting from others?

Alternative revenue sources
- Can revenue needs for the policy or programme be met through the existing budget process?
- Have alternative sources been explored for their revenue-raising potential?

Impact on health sector efficiency and equity
- Will the earmark improve or inhibit the government’s ability to manage health expenditure, including implementing strategic purchasing approaches?
- Will the earmark facilitate pooling of health funds or introduce fragmentation and limit the ability to pool health funds across sources, leading to equity concerns?

Spending flexibility
- Are mechanisms in place to ensure efficient spending of earmarked revenues?
- Can earmarked revenues be spent flexibly within the expenditure purpose, or are restrictions in place related to line-item budgets or other PFM rules?
- Can unspent earmarked revenues be carried forward into the next fiscal year?

Time horizon
- Will the earmark be temporary or permanent?
- If the earmark is intended to be temporary, will it come with a “sunset clause,” mandatory periodic reviews or a transition plan?
- Will the revenue source be sustainable relative to the intended expenditure purpose?

Revenue–expenditure link
- Does the policy or programme to be funded with the earmark have sufficiently diversified revenue sources so it will not completely depend on the earmarked revenue?
- Will a release valve or contingency option be put in place to reallocate earmarked funds if other urgent needs or priorities arise?
- Are expenditure management mechanisms in place to prevent overspending?

Fiscal and public financial management (PFM) impact
- Will the earmark improve or impede the efficiency of budget allocations?
- Will the earmark mitigate or exacerbate distortions or inefficiencies in the underlying revenue source?
- Will the earmark mitigate or exacerbate the equity impacts of the underlying revenue source?
- Have simulations and scenario testing been done to analyse:
  - impact on the health sector budget
  - impact on the total government budget
- Broader fiscal, economic and social impact
- Will the above analyses be updated periodically?

Managing earmarked funds
- Will the funds flow through the treasury or a consolidated fund into an extrabudgetary fund, or will they go directly to an implementing agency?
- Will the institution that spends the earmarked revenues be prepared for the inflow of funds?
- Will a reserve fund or contingency fund be created to manage revenues in excess of expenditure needs?

Accountability
- Have assessments been conducted at all levels of the system to ensure sufficient capacity to manage and monitor the flow of earmarked funds?
- Can earmarked revenues be accounted for at every step, from collection to expenditure?
- How will the institution that spends the earmarked revenues be accountable for results or outcomes?
OCED Government at a Glance: Latin America and the Caribbean. 2020. 5.6 earmarked funds, accessed from: https://www.oecd-ilibrary.org/sites/6f74ddb4-en/index.html?itemId=/content/component/6f74ddb4-en


Asare Adin-Darko D Earmarking in Ghana: Impacts on the Financial Sustainability of the National Health Insurance Scheme. 2021. JLN blog post


Ulep V, Pargas I, Alcantara A Health Earmking in the Philippines, 2021 JLN blog post


WHO. 2021. technical manual on tobacco tax policy and administration. Chapter 4, section 4.6 Earmarking tobacco tax revenues to fund health. WHO: Geneva

WHO. 2016. Earmarked tobacco taxes: lessons learnt from nine countries. WHO: Geneva
Thank you!

Danielle Bloom: dbloom1@worldbank.org