

# Merlin's role in health financing



This paper has been prepared by Merlin's Policy team within the Health and Policy Department and is based on a recent review and discussion document (February 2007) looking at health financing within Merlin country programmes.

July 2007



## Executive Summary

Merlin is committed to every person's right to health and believes that everyone should have access to basic health care. To achieve this all countries need a health service that is funded appropriately. Achieving this is a challenge for many countries and especially those in which Merlin works since they represent some of the most difficult environments for the successful functioning of the health sector and for health financing.

Despite the challenges, there are opportunities to fill the current large financing gap in many countries and to promote revenue options which are more equitable. Merlin's work in health financing therefore seeks to promote the conditions necessary for greater and better funding, both in the countries in which it works as well as more generally.

Merlin has a role to play in highlighting where a health financing system is not supporting access to essential health services and to use its experience and position to promote better options for the future. Merlin can do this through influencing for better support to the health sector, both in terms of quantity and quality, from in-country and external sources at global and national levels. In addition Merlin can provide support to approaches to health care financing within existing or new programmes which have the potential to advance more appropriate systems for the future, such as those which allow for increased risk-pooling within the population and which limit the amount of payment required at the time of accessing services.

## Purpose of this paper

The purpose of this paper is to outline Merlin's policy on health financing within its work. In particular the paper is designed to:

- clarify Merlin's position on health financing within the organisation to provide guidance to programme staff
- inform partners (international, national and local) on Merlin's position on health financing
- outline some of the challenges and opportunities in terms of support to health financing in Merlin's work.

## What is health financing and why is it important to Merlin?

Health financing is about how the health service is funded and how the funds are allocated to provide the health care needed for a population. Health financing is central to the functioning of the health system because without funds it is impossible to pay staff, buy drugs, build and maintain health clinics, or provide the management to supervise and support the system.

**How much funding is available** is important as it has implications for the level of service that can be provided. In countries where there is insufficient funding for the health sector, the population may be denied even a basic level of health service, and even this very limited service may be of doubtful quality.

**How the funds are collected** is also important as this has implications for the affordability of the health care on offer. If funds are collected at the point of service, e.g. through the use of charges, then this can have

consequences for people's ability to pay and therefore access services when they need them.

**How the funds are allocated** and spent will also be important as this has implications for which services are provided and to whom. For example if the majority of funding is spent on hospitals in the capital or large cities, then those in rural areas may be unable to access the services they need.

Ensuring a good health financing system is therefore a vital part of support to the health system in any country and is currently high on the international agenda.

Over 90 per cent of the world's global disease burden is found in developing countries, yet the amount spent in these countries accounts for only 12 per cent of the overall global health expenditure (World Bank, 2006). Obviously something needs to be done to re-dress this imbalance.

Merlin believes that everyone should have access to basic health care. For all countries, a health system that is funded appropriately is vital to this goal and therefore an important aspect of Merlin's work in the countries in which it works, as well as at a global level.



## What does an appropriate health financing system look like?

Merlin's vision of **basic health care for all** requires all countries to have a health financing system which supports access to appropriate and effective health care when needed, and at an affordable cost.

An appropriate health financing system will support this through ensuring a number of key functions<sup>1</sup>:

- it will ensure that there is sufficient funding available to provide individuals with a basic package of essential health services<sup>2</sup> while at the same time protecting them from any catastrophic medical expenses caused by illness and injury
- it will allow the revenues collected to be pooled within the population in a way that supports equity and efficiency
- it will ensure that the way that health services are purchased promotes efficiency in the choice of services and equity in the way they are allocated across the population

A number of funding sources will be available to finance the health system in a country. These sources will include revenues collected in the country such as those from taxes and those from direct payment for health care. It also includes funds from external sources, such as donor funding.

Table 1 provides an overview of potential sources, how they might support the key functions of a health financing system and their appropriateness in different contexts. What is clear is that some funding sources are better than others at providing funds and promoting equity and efficiency e.g. tax-based and social health insurance schemes, but work better in certain environments. Other options, such as private out-of-pocket payments have generated continued debate because of their potential to impact negatively on access. In any country a mix of funding sources is likely to make up the final overall health financing system and how the mix of options is established will be determined by many factors. These factors will include the strength and nature of the economy; the stability of the government and its institutions, and the prevailing political and policy environment.

Some of these factors will be difficult to change, especially in the short term, but others will be open to influence and support. Working towards an appropriate health financing system in a country will involve helping to shape the environment within the country to allow the best mix of health financing options to be possible, and chosen, with the ultimate aim of ensuring basic health care is available for all when needed and at an affordable cost.

<sup>1</sup> Adapted from World Bank, 2006

<sup>2</sup> The Commission on Macroeconomics for Health estimates that a basic minimum package of health care services requires US\$30-\$40 per head. This package would cover tuberculosis treatment, malaria prevention and treatment, HIV prevention, care and treatment, immunisation and maternity-related illness. Costs include capital components, management and institutional support and investment in training to scale up services (World Health Organisation, 2001).

**TABLE 1: HEALTH FINANCING OPTIONS; THEIR PERFORMANCE AND SUITABILITY IN DIFFERENT CONTEXTS**

Revenue source	Performance against health financing functions	Suitability in different contexts
<b>Tax-based income</b>	<p>Increased funding from taxes will be available as the income of a country increases. Low income countries tend to collect less revenue as a percentage of Gross Domestic Product than higher income countries.</p> <p>Can protect against catastrophic health spending through its pre-payment nature and allows for effective pooling of risk across a large contributing population. Considered to be highly desirable as a health financing mechanism in terms of equity. However a critical factor will be how funds collected are allocated.</p>	<p>More realistic in countries with stable contexts and growing economies and appropriate administrative structures. Low income countries will generally have an economy which is dependent on subsistence which will not support a broad tax base. This situation is likely to be exacerbated in countries emerging from conflict and those with on-going emergencies where the government's authority to collect taxes is likely to be undermined. The unstable nature of many environments will also make the efficient and transparent collection of taxes difficult. However even in difficult contexts some taxes will be collected but these funds will not always be allocated to health.</p>
<b>Social Health Insurance</b>	<p>Higher per capita income is likely to increase the capacity of business and citizens to make social health insurance payments. It can protect against catastrophic spending through its pre-payment nature. Will also allow for pooling of risk but may be liable to fragmentation between different funds. However the system only protects those who are covered so can also exclude those most in need.</p>	<p>Similar to tax-based revenue and unlikely to be a realistic option in unstable environments or those which do not have a broad tax base or growing economy. However smaller community based insurance schemes may be suitable in lower income countries where there is some degree of stability.</p>
<b>Private payments (out of pocket/ user fees)</b>	<p>Private out-of-pocket payments are generally higher in poorer countries. There is no pooling of risk or prepayment and a high risk of catastrophic spending and therefore a very inequitable form of funding. Experiences to date have also found that cost-recovery schemes have generated less income than intended. However funds collected by this means have been used in some cases to pay staff salaries and purchase drugs where alternative mechanisms are not available.</p>	<p>Not considered to be an equitable option in low income contexts and likely to be particularly unsuitable in situations where people are very poor or have lost their means of support such as those who are displaced.</p>
<b>Private Health insurance</b>	<p>May offer an alternative to out-of-pocket payments and a degree of financial protection. Has the potential to provide some form of risk pooling where tax-based and Social Health Insurance schemes are not available but may benefit the wealthier segments of society if not well regulated.</p>	<p>Requires a level of individual resources to pay into fund and a regulatory framework and therefore more realistic in higher income countries. Unstable conditions are unlikely to offer the required conditions for good regulation.</p>
<b>Donor funding/other external funding</b>	<p>External funds account for 8% of health spending in low income countries overall. In sub-Saharan Africa external sources may finance more than 30% of total health expenditure. The funding may come in a variety of forms and over variable timescales and how it meets health financing functions will depend on the nature of the funding. Some funding mechanisms may skew funding to the sector as a whole.</p>	<p>Different funding mechanisms are available in different situations e.g. specific funds for humanitarian and development programmes and general budget or sector wide support versus project support. Some funding mechanisms have been found to fall short of requirements especially in transitional contexts.</p>

## What are some of the challenges for health financing in the countries in which Merlin works?

Achieving an appropriate health financing system is a challenge especially in the countries in which Merlin works since they represent some of the most difficult environments for the successful functioning of the health sector and for health financing.

These challenges have been highlighted recently in a review of the countries in which Merlin currently works which shows not only a lack of funding for health care in these countries but that a large proportion of the funding is being provided by those least able to pay<sup>3</sup>. The review found:

- low levels of expenditure per capita on health in almost all countries. In most countries the figure is less than US\$30 per head and thus below a minimum health spend required to support a basic package of health care services<sup>4</sup>
- high levels of private expenditure, of which out-of-pocket expenditure is often the major source. In some countries private expenditure is as much as 80 per cent of total health funding. This has important implications for equity
- gaps in the funding to the health sector in the transition from humanitarian to development financing combined with short funding time-scales hampering longer term planning of health sector support
- fragmented and sometimes competing donor policies on health financing which impact on the ability to promote universal access
- high levels of external funding, often allocated to specific disease priorities with the potential to skew the overall support to the health system
- high levels of total debt as a percentage of gross national income potentially requiring funds to be spent on debt servicing rather than on social services, including vital health services.

These challenges mean that the best health financing options are either not available, or not being chosen, leaving systems in place which are often both inefficient and inequitable.

NOMS	QUANTITE	PRIX
Aminepholline	1 amp.	0
Ampicilline	1 gmc	465 F
Aiguille 40x8	1	25 F
Benzil-Pini	1 ml	230
Benzathine Benzyl Pini	1 g	0
Butylglyosine	1 amp.	225 F
Chloramphénicol	1 g	465 F
Calcium	1 amp.	0
Dexametozone	1 amp.	225
Dextrom	1 amp.	0
Diazepam	1 amp.	150 F
Diclofenac	1 amp.	0
Eau pr. préparat. inject.	5 ml	50 F
Gentamicine . . . 80 mg	1 amp.	150 F
Hydrocortisone	1 g	0
Lactate Ringex	500 ml	1000 F
Metoclopramide	1 amp.	0
Phyto-Ménadiolone	1 amp.	260 F
Quinine 400 mg	1 amp.	285 F
Quinine 200 mg	1 amp.	175 F
Pénicilline 10 ml	1	125 F
Seringue 5 ml	1	105
Serum Glucosé 5%	500 ml	225 F
Serum Salé	500 ml	950 F
Vitamine B12	1 amp.	150 F
Vitamine K1	1 amp.	260

  

* PANSEMENT *		
Bande Gaze	1	200 F
Comresse	1	40 F
Cetrimexazole Alg.	1	70 F
Saxadrap	10 cm	35 F
Hospitalisation	10	35 F

3 Health Financing within Merlin Country Programmes. A discussion paper. February 2007

4 Based on figure from the Commission on Macroeconomics for Health ( as per reference 2)

## What can Merlin do to improve health financing systems?

Merlin's experience of implementing a range of health financing mechanisms within its programmes has highlighted some of the difficulties and complexities involved in promoting appropriate options:

- In the Democratic Republic of Congo, Merlin's experience of implementing cost-recovery mechanisms has shown how sensitive utilisation rates may be to user fee charges and the need to adapt to the changing context.
- In Liberia, Merlin's experience of staff incentive payments has shown how this approach can be successful in recruiting and retaining staff. The challenge comes in planning the handover for the responsibility of salaries to the government as premature withdrawal can result in a decline in quality and access to health care.
- In Ethiopia, Merlin's experience of supporting drug-revolving funds has illustrated some of the difficulties of balancing cost-recovery and equity within a national policy context. Merlin's aim to allocate a percentage of funds to cover free drug distribution to vulnerable groups was seen as out of step with the national policy on cost-recovery and was met with resistance by the local administration.

Despite the challenges it is vital that opportunities are used to fund the current large financing gap in many countries and to promote revenue options which are more equitable. Merlin's work in health financing therefore seeks to promote the conditions for greater and better funding where possible, both in the countries in which it works as well as more generally.

### What opportunities exist for more and better funding?

There are four main options available for promoting more and better funding. These are:

- Increasing the national government's contribution to the health sector
- Increasing donor funding and promoting more appropriate donor funding
- Raising revenues at the local level in a manner which supports equity

- Improving the use of available resources so that they promote greater access and equity

Ultimately it is the responsibility of national governments to provide an allocation to the health sector that reflects the importance of this provision to economic and social development and one which meets the needs of its citizens. Though it is recognised that in many countries the government's access to funds is limited, where funds are available, they should be directed towards the provision of pro-poor health services within a comprehensive poverty reduction strategy.

However even with the best efforts and most optimistic projections it is unlikely that the governments in many countries will be in a position to adequately fund the health system for many years to come. Private payments are already very high in many countries, much of which may be out-of-pocket. External funding will therefore be needed to bridge the gap.

At present both the quantity and quality of external funding needs to be improved. The current thinking is that greater use of budget support is preferable to "off budget"<sup>5</sup> and that earmarking should be avoided where possible. Obviously these approaches require a certain level of capacity (financial and managerial) and may not be possible in all countries at the present time. However the long term goal must be to move towards the most efficient and locally-owned systems as soon as possible. In the meantime external funding needs to be provided in a way that supports the longer term capacity within the country to absorb and utilise funds in the future.

Options to raise funds at the local level also need to be reviewed as they need to support an equitable system; one that does not promote catastrophic health spending or limit access, as has been the case with many cost-recovery mechanisms to date. In particular the use of fees at the point of delivery has been shown to lead to falls in utilisation rates and is therefore considered a particularly poor option for promoting equity and access. Alternative ways of raising revenue must therefore be explored.

Finally it is vital to ensure that the funds that are currently available are used in the most efficient and effective manner and help build a health system for the future. Efforts are needed to review how funds are currently allocated especially between disease priorities, geographical areas and levels of the health system, and for revisions to be made to the allocation of funds where necessary to promote better and more equitable use in the future.

<sup>5</sup> Off-budget funds are reflected in the balance of payments and not the government's budget

## What role can Merlin play?

In its work, Merlin has a role to play in all the above areas, in highlighting where the health financing system is not supporting access to essential health services for all and using its experience and position to promote better options for the future. Merlin can do this in a number of ways:

- Through the collection and collation of information on the impact of current health financing mechanisms on health care and health outcomes and the use of this evidence to influence for health financing options which promote equity and access
- Through promoting the benefits of an increased allocation of available resources in-country to the health sector and monitoring that governments meet their commitments in this area
- Through highlighting the need for increased donor funding where the systems are in place to absorb this funding and where the systems are not yet in place, through support to building the capacity of financial and management structures for the longer term
- Through support to approaches to health financing which promote equity including ways of off-setting the impact of current approaches, and the dissemination of the lessons learnt both within and beyond the organisation
- Through promoting the need for improved donor funding in humanitarian and transitional contexts to ensure greater emphasis on longer term planning and capacity building within the health sector
- Through promoting best practice in the use of funds in terms of the type of activities supported as well as the nature of the funding allocations

Over the next few years, Merlin will use its considerable learning to support these areas at both a policy and a practical level, in the countries in which it works, as well as internationally.

## Influencing for change

In terms of policy to support more and better financing, Merlin will work to ensure that current policy at country and global level supports the allocation of resources required to provide basic health care for all.

Based on sound analysis in-country as well as in the wider environment, Merlin will use its influence to ensure that:

- health is adequately represented in national strategy

documents including a Poverty Reduction Strategy Paper if available

- health strategies promote access to health services for vulnerable populations
- adequate funds are allocated to health from national governments in line with international commitments (where set) such as the Abuja Declaration<sup>6</sup>, or that appropriate targets are set for the future
- health is adequately represented at a global level and that international governments commit to realising the right to health for all people
- adequate funds are allocated by donors to the health sector in line with agreed targets and pledges, and that this funding is delivered in an appropriate way to help support the longer term development of the health systems in these countries
- funding mechanisms are developed which avoid gaps while countries are in transition between different contexts
- health financing mechanisms ensure equity as a key measure of suitability especially for funds raised at a local level
- that there are systems in place to ensure accountability and transparency in the funding of the health system and delivery of health services at country and global levels.

## Providing practical solutions

At the same time, Merlin will provide practical support to the development of more effective financing through its current and future programming. In particular Merlin's programmes will:

- collect data on health financing mechanisms and access to health services by vulnerable populations and feed findings into national and global debates
- Support health financing mechanisms which promote greater equity and access, and use the learning from these programmes to influence national and global debates
- Investigate means of off-setting the costs of accessing health services where these costs are inhibiting the use of services and feed the findings into national and global debates
- Support ways to improve the accountability and transparency of health financing systems particularly in terms of the relationship between government (and other service providers) and citizens

6 In 2001 the Heads of African states committed to spending 15 per cent of their national budgets (Gross National Product) on health and AIDS

- Support the use of incentive payments for health staff where the government is unable to ensure a living wage, while working to promote longer term government responsibility

While the conditions in-country are likely to remain difficult and often preclude the adoption of the most equitable systems in the short term, the challenge must be to explore all available options and opportunities and to learn from the piloting of more innovative solutions, to promote more appropriate systems in the future and to scale. The lessons from programmes will feed into the influencing activities to help promote greater and better funding for the future towards the realisation of basic health care for all.

## Support to work in health financing

Support for Merlin's work in health financing will be provided by the Health and Policy Department in collaboration with the Programmes Department. The Health and Policy department will also facilitate links with relevant institutions and organisations involved in research and implementation of health financing mechanisms to promote cross-organisational learning and provide additional guidance for Merlin programmes.

Health financing has been identified as a key area for the organisation and thus the Policy team within the Health and Policy department will aim to disseminate information on the topic of health financing on an on-going basis and keep staff abreast of developments. In addition, key "how to" documents on turning policy into practice will be developed to help guide and strengthen Merlin's support in this area over the coming period. Support will also be provided to country programmes to develop influencing objectives in this area.

## Monitoring of Merlin's work in health financing

Merlin's work in health financing will be monitored over the coming years to ensure that efforts at country and global levels reflect the organisation's commitment to health financing and to the goals of equity and access to health care. This will include monitoring actions which Merlin is taking in support of equitable health financing as well as those which Merlin hopes to encourage and see implemented by others.

A range of instruments, including programme evaluations and case studies, will be used to gauge progress during this period as well as the inclusion of health financing in the standard Monitoring and Evaluation framework for the organisation being developed over the 2007/2008 period.

## References

WHO (2001) Macroeconomics and Health: Investing in health for economic development. World Health Organisation, Geneva.

World Bank (2006). Health Financing Revisited: A Practitioner's Guide. Edited by P Gottret and G Schieber. The World Bank.

## Further reading

Achieving Universal health Coverage: Developing the health financing system. Technical briefs for policy-makers. Number 1, 2005, World Health Organisation, Geneva.

Cost-recovery in the health sector: an inappropriate policy in complex emergencies. Poletti, T et al., Practice and Policy Notes, Humanitarian Exchange, ODI, No 26, March 2004.

Designing health financing systems to reduce catastrophic health expenditure. Technical briefs for policy makers number 2, 2005. World Health Organisation, Geneva.

Health financing: designing and implementing pro-poor policies. Sara Bennet and Lucy Gilson. DFID Health systems resource centre, 2001.

Health Financing within Merlin Country Programmes. A Discussion Paper. Merlin internal document. February 2007



*Merlin is the only specialist UK charity which responds worldwide with vital health care and medical relief for vulnerable people caught up in natural disasters, conflict, disease and health system collapse.*

12th Floor 207 Old Street London EC1V 9NR UK TEL: +44 (0)20 7014 1600 FAX: +44 (0)20 7014 1601  
EMAIL: [hq@merlin.org.uk](mailto:hq@merlin.org.uk) WEB: [www.merlin.org.uk](http://www.merlin.org.uk) Registered charity number: 1016607