

High-Performance Health Financing for Universal Health Coverage

Driving Sustainable,
Inclusive Growth
in the 21st Century



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Executive summary

The majority of developing countries will fail to achieve their targets for Universal Health Coverage (UHC)¹ and the health- and poverty-related Sustainable Development Goals (SDGs) unless they take urgent steps to strengthen their health financing. Just over a decade out from the SDG deadline of 2030, 3.6 billion people do not receive the most essential health services they need, and 100 million are pushed into poverty from paying out-of-pocket for health services. The evidence is strong that progress towards UHC, core to SDG 3, will spur inclusive and sustainable economic growth, yet this will not happen unless countries achieve high-performance health financing, defined here as funding levels that are adequate and sustainable; pooling that is sufficient to spread the financial risks of ill-health; and spending that is efficient and equitable to assure desired levels of health service coverage, quality, and financial protection for all people—with resilience and sustainability.

The UHC financing agenda fits squarely within the core mission of the G20 to promote sustainable, inclusive growth and to mitigate potential risks to the global economy. All countries stand to benefit from realizing quality and efficiency gains and freeing productive resources in one of the largest global industries.

All countries will also benefit from health financing designed to strengthen health security, thus reducing the frequency, spread and impacts of disease outbreaks, and other negative cross-border spillover effects of failing health systems. Anchoring this agenda in the G20 Finance Track and promoting joint leadership by finance and health ministers provides the opportunity to break down the silos and tackle the political economy challenges that continue to hamper progress toward high-performance health financing for UHC.

High-performance health financing advances UHC and sustainable, inclusive growth

It is no longer plausible to argue that health spending is purely consumption. High-performance health financing is an investment that benefits the economy through six main channels:

- **Building human capital.** Investments in essential primary and community health services such as maternal, neonatal, and child health interventions, including immunization and nutrition, fuels the creation of human capital during children's critical early years, laying the foundation of improved educational performance and earning potential. Essential promotive, preventive, and curative health services boost workers' productivity throughout their lifetimes, often with rapid impact.
- **Increasing skills and jobs, labor market mobility and formalization of the labor force.** The changing nature of work requires skills such as complex problem-solving,

teamwork, innovation and self-reliance. Investing in health is a prerequisite to build and maintain these skills and increase countries' capacities to innovate and generate jobs and growth. High-performance health financing also guarantees financial protection regardless of where people live or their employment status, making it easier for people to change jobs and take advantage of new opportunities. It also reduces the costs for private firms to grow and create jobs, increasing the rate of workforce formalization and the proportion of people in full-time employment.

- **Reducing poverty and inequity.** Scaling up prepaid and pooled financing to reduce out-of-pocket payments can have a swift, substantial benefit for poverty reduction. Financial protection has other benefits: people no longer need to sell assets or borrow to meet health payments. They conserve resources that they can then spend or invest in other ways. Financial protection also allows the sick and poor to protect, maintain and improve their health and increase their earnings. As a result, income inequality falls.
- **Improving efficiency and financial discipline.** Improvements in the efficiency of pooling and purchasing allow expanding the range and quality of guaranteed health services and increasing the extent of financial protection within existing resource envelopes, while controlling cost escalation. Combined with measures to increase efficiency in resource mobilization, they ensure financial discipline in the sector over the short and long term. This can have an immediate impact on public spending given that the health sector now represents a significant share of government expenditures in many countries—on average more than 11 percent.
- **Fostering consumption and competitiveness.** Financial protection frees people from making precautionary savings and can stimulate expenditures on other goods and services. The ability of a country's entrepreneurs, companies, and workers to continually adapt and innovate is paramount to future competitiveness, facilitated by the impact of UHC and health and human capital accumulation. By driving efficiency gains in the health sector, health financing also frees productive resources for new strategic uses, supporting countries to gain or keep a comparative advantage in international trade.

- **Strengthening health security.** The West Africa Ebola crisis of 2013-2016 demonstrated that pandemics can leave lasting economic scars and set development back for years, if not decades. Investments in preparedness capabilities including surveillance, primary and community health workers, public-health laboratory networks, and information systems are essential to detect and mitigate infectious disease outbreaks before they spread out of control. In addition to saving lives, investing in preparedness and early action to stop outbreaks also help prevent macro-economic shocks and much more costly emergency response efforts.

Critical health-financing shortcomings and emerging threats put UHC at risk

Despite these multiple benefits, the majority of developing countries have yet to seize the growth and development opportunities offered by high-performing health financing. Major coverage gaps for essential health services persist; for those who receive services, coverage is too often ineffective, as the quality of services is low. To expand equitable coverage with both quality services and financial protection, the overall levels of health spending, the mix of revenue sources, pooling, and the efficient and equitable use of resources matter. This report identifies critical health-financing constraints, including:

- **Total per capita health spending from all sources is very low in developing countries,** averaging \$40 in low-income countries (LICs), \$135 in lower middle-income countries (LMICs), and \$477 in upper middle-income countries (UMICs). This compares to \$3,135 in high-income countries (HICs).
- **Part of this low spending is because many developing countries allocate relatively small shares of total government spending to health—levels that are inadequate to support coverage with essential quality health services for all.** Developing countries devote on average 10 percent of government expenditure to

health, compared to 15 percent in HICs. There are very large variations, from around 3 percent up to nearly 30 percent, with some UMICs giving the lowest priority to health.

- **Part of low government spending can also be attributed to the low capacity to mobilize revenues.** In close to half of developing countries, government efforts to raise taxes consistently fall short of 15 percent of gross domestic product (GDP), a threshold that the IMF has identified as critical to engender sustained, inclusive growth.
- **Low levels of domestic government financing mean that there is currently a substantial gap between the costs of financing an essential package of quality services for everyone and resources available in low- and lower middle-income countries.** Even with good economic growth, this gap is not expected to narrow greatly over the next decade, remaining at approximately \$176 billion for the 54 countries that are unlikely to reach upper-middle-income status by 2030.
- **As a result of low levels of government spending, out-of-pocket payments constitute a large share of health expenditures in developing countries, amounting to more than half a trillion dollars or \$80 per capita annually.** As noted earlier, these payments deter some people from using needed health services, and push others into poverty or trap them once there.
- **Inefficiencies and inequities in health financing are widespread.** Estimates suggest that between 20 and 40 percent of health funding is wasted across all countries, on average. In terms of equity, poor people often contribute a higher proportion of their incomes in health payments than the rich, without subsequent compensation through fiscal transfers in cash or in kind, while frequently receiving fewer health services of lower quality.
- **Rapid increases in development assistance for health (DAH) since 2000 have resulted in major health gains in the poorest countries, yet DAH levels have stagnated in recent years and DAH must evolve to help accelerate progress toward UHC.** In the past, DAH has predominantly supported infectious disease programs.

Additional international assistance is needed to catalyze similar advancements in other disease areas, strengthen health systems, support governments in tackling low government revenue generation and strengthen their capacities to carry out all health-financing functions required for accelerated progress towards UHC.

Emerging and intensifying challenges are driving up health care costs and pose risks for future domestic revenue mobilization, efficiency, and equity. Some of the leading challenges include rising consumer expectations; population aging and the corresponding increase in the burden of non-communicable diseases and demand for long-term care; progress in medical technology; limited administrative capacity to raise revenues; slow formalization of economies; changes in the form and content of work; pandemic threats; anti-microbial resistance; and forced displacement of populations. If not addressed early, these factors may make it even harder for countries to attain the high-performance health financing required for UHC.

Closing the substantial UHC financing gap in 54 low- and lower middle-income countries will require a strong mix of domestic and international investment. Countries' own fiscal measures to increase taxes as a share of GDP and the share of government expenditures dedicated to health, on top of economic growth, could reduce the estimated financing gap in 2030 by about one-third, from a total of about \$176 billion to approximately \$114 to \$122 billion. Additional inflows may come from the private commercial sector, but the amounts are likely to be limited. Current levels of DAH totaling \$11 billion for these countries will not be nearly enough to close the gap. A substantial increase in DAH with support to develop the capacity to absorb external financing, stronger engagement of the private sector, and innovative health-financing policy solutions in countries will all be needed for countries to have a chance of reaching UHC and realizing the ensuing benefits of sustainable, inclusive growth.

A roadmap for country action

Global consensus has emerged around three lines of action for countries to build high-performance health financing:

- **Scale what works.** Countries can make substantial progress by adapting proven health-financing principles and policies to their specific contexts. Broad agreement exists on key options, including: improve the efficiency and equity of resource use, for example through prioritizing investments in good quality primary and community health services; increase resources for health from general revenue, and, where appropriate and feasible, obligatory health insurance contributions from those with the ability to pay.
- **Focus on the “big picture”.** Leaders can improve health-financing results by developing a “big-picture” perspective in two ways: first, by connecting health-financing policy across sectors in a whole-of-government approach; second, by consistently adopting a medium-term timeframe and routinely assessing the likely future threats to revenue generation, health costs, efficiency, and equity, adjusting their health-financing strategies before emerging problems become entrenched. Together, these two approaches will reinforce health-financing resilience and sustainability.
- **Strengthen health-financing leadership, governance, and organizational capacity.** Joint leadership between ministries of finance and health can accelerate the development and implementation of health-financing solutions, particularly in areas where, despite broad consensus about principles and policies, progress lags. Often such slowdowns are due to political obstacles. Joint leadership between ministries of finance and health is equally critical to strengthen health-financing governance and organizational capacity.

International collaboration to accelerate progress

Many international initiatives are designed to support health financing in developing countries. Bilateral and multilateral agencies and development banks, and global alliances, networks, and platforms are making important contributions beyond development finance to facilitate technical collaboration, policy dialogue, and global learning. These include, inter alia, the World Health Organization (WHO)-led Global Action Plan for Healthy Lives and Well-being, including the financing accelerator; the P4H Network; UHC 2030; the Joint Learning Network for UHC; various networks of budget officials (e.g., the OECD Joint Network of Senior Health and Budget Officials and the Collaborative Africa Budget Reform Initiative); the African Union’s Africa Scorecard and Tracker on Domestic Financing for Health as well as planned regional health-financing hubs; Gavi, the Vaccine Alliance; the Global Financing Facility for Women, Children and Adolescents (GFF); and the Global Fund to fight AIDS, Tuberculosis, and Malaria. Each of these partnerships and platforms plays a valuable role in helping countries respond to today’s pressing health-financing problems.

However, given the persistent challenges in overcoming UHC financing shortcomings, new avenues for international collaboration to support country UHC financing efforts are needed in two main areas: (1) **health-financing research and development** that will provide countries with new evidence on open questions and areas of controversy, new strategies to improve financial resilience and sustainability, and financing innovations that might allow step changes in progress toward UHC; and (2) **a sizeable increase as well as a strategic shift in DAH** toward strengthening health-financing leadership, governance, and organizational capacity, improved domestic resource use and mobilization, and increased global health security.

G20 Finance Ministers and Central Bank Governors can champion a UHC financing resilience and sustainability agenda

G20 Finance Ministers and Central Bank Governors can help countries seize the opportunities of high-performance health financing by adopting and steering a UHC financing resilience and sustainability agenda. Leadership by G20 Finance Ministers and Central Bank Governors is critical, as core aspects of this agenda extend beyond the purview of health into public finance. G20 Finance Ministers and Central Bank Governors can lead by example in demonstrating how finance and health authorities can successfully collaborate to build and sustain strong health-financing systems that deliver better health services and financial protection.

To advance this agenda, G20 Finance Ministers and Central Bank Governors can:

1) Convene biennial UHC financing resilience and sustainability dialogues between ministers of finance and health at future G20 meetings. The meetings would identify priorities for country and global action to detect and manage health-financing threats; define an innovation agenda; and foster political commitments for UHC financing. The meetings would offer a venue for dialogue between ministries of finance and health on the forces driving health expenditures, options to improve efficiency and raise revenue, including a new generation of DAH. The biennial dialogues would be grounded in a UHC financing resilience and sustainability assessment. The development of the analytical approach would be coordinated by the WBG working closely with WHO. Implementation would be facilitated by existing networks and partnerships that would connect financing experts from around the world to learn and hone their skills in assessing and responding to health-financing threats and opportunities. Development of the assessment and preparation of the dialogues could be overseen by a UHC financing resilience and sustainability advisory

panel comprised of former ministers of finance and health and globally recognized experts in health financing, health, public finance, and fiscal policy.

- 2) Sponsor a UHC financing grand challenge portfolio.** The portfolio would target investments toward solving the health-financing challenges identified in the G20 UHC financing resilience and sustainability dialogues, with a focus on those with the greatest potential for global economic and health impact and enabling step-change progress toward UHC. This could take the form of an innovation fund dedicated to developing more effective health-financing solutions, and/or G20 countries that invest in existing Grand Challenge funds choosing to direct more of those portfolios toward relevant health-financing priorities.
- 3) Champion more and better DAH that catalyzes sustainable domestic resource mobilization to accelerate progress toward UHC by 2030.** As noted previously, substantial increases in DAH will be essential to help low- and lower middle-income countries close the financing gaps and reach their UHC targets. The next generation of DAH can also do more to catalyze efficient and equitable use, pooling, and mobilization of domestic resources, and strengthen country capacities in sustainable health financing, as well as in pandemic prevention and response. The replenishments in 2019 and 2020 of the major global health funding mechanisms, including the Global Fund, Gavi, and the WBG's IDA provide near-term opportunities to champion these shifts toward a longer term approach of more and better DAH to assist countries in accelerating progress toward UHC.

Conclusion

Advancing UHC through high-performance health financing will generate more rapid, sustained, and inclusive growth. Yet global progress toward UHC remains slow because few developing countries have fully seized the opportunity to develop well-performing health financing. The good news is that a global consensus, based on country experience, is emerging on how countries can most effectively construct high-performance health financing for UHC and how countries and partners can collaborate to accelerate these efforts. This convergence in strategic thinking opens an unprecedented opportunity to realize the economic gains associated with progressive realization of UHC.

As champions and stewards of a UHC financing resilience and sustainability agenda, G20 Finance Ministers and Central Bank Governors can play a critical role in supporting countries as they ready themselves to manage the emerging and intensifying threats that today place progress toward UHC and economic growth at risk. Equitable stewardship from a group committed to the common good is the catalyst required to turn risk into resolute action. Through these mechanisms, G20 leaders will help their partner countries advance toward prosperity based on fair opportunities for all, the surest foundation for global stability, prosperity, and peace.



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