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Greater Equity for Better Health and Financial Protection

Technical Note Plenary 1

Revenue Generation and Equity: Who Should Worry About It?

Raising money to move closer to UHC or maintain past gains is a constant struggle for countries at all income levels. Fiscal policy, which involves raising public funds and deciding how to spend them, is a balancing act of competing policy objectives. Governments are expected to raise sufficient revenues to finance essential public goods and governance functions while promoting economic growth, stimulating full employment, and minimizing market distortions in the allocation of consumption and investment goods. Then, in choosing which instruments to use to generate funds, there are tradeoffs between the likely yield from different instruments (e.g. income tax, value added taxes), the costs of collection and enforcement, and the impact on equity.

Concerns with inequity, the inequalities deemed to be unjust, affect discussions about how revenues are raised – who pays, how much, when, and who should benefit from public expenditures. To begin to address inequities in revenue generation, the first step is to identify the form in which they manifest themselves. There are many inequalities associated with revenue generation, but the following are considered here to be unjust or inequitable:

- Differences in the incidence of out-of-pocket payments (OOPs) for health services that result in severe financial hardship for some. Recognizing that many countries move progressively to enlarging the set of services guaranteed to the population as their incomes rise, we focus on the OOPs that are incurred because people lack access to the defined set of guaranteed services or because they must pay (formally or informally) for using these services.
- Differences in net contributions to the public finance system (including, but broader than health) across individuals and groups that do not make the post-tax (i.e. financial contributions) and post-transfer (i.e. receipts in cash or kind) disposable income distribution more equal than the pre-tax distribution.
- Differences in net contributions across firms because of revenue generation systems for overall public finance that do not have a compensating benefit for the economy[1].
- Differences across individuals or groups in contributions to voluntary prepaid and pooled financing arrangements based largely on health status, including pre-existing conditions and risk factors.

Inequities in revenue generation are associated with OOPs, private voluntary insurance, and compulsory financial contributions. A premise of this session is that inequity associated with the revenue generation function for overall public finance is more relevant than the way funds for health are raised by themselves.

[1] In public finance, firms are not usually considered separately in discussions about equity in financial contributions. They are seen as an intermediate step in allocating revenues to people (employees, management, board members, shareholders/owners) and these revenues should be captured in considering the net contributions of individuals. Here, we have included them because in public debates there is frequently discussion about whether firms pay their fair share, and tax policy certainly focuses on firms as well as individuals.

Any revenue raising specifically for health could be progressive to balance regressivity, say, in financing education, or vice versa.[2] Or one method of raising funds might be regressive (perhaps VAT) but may be offset by progressivity with other instruments (e.g. income tax). Governments can also balance out any unfairness in financial contributions by ensuring that the poor receive fiscal transfers from the funds that are raised to compensate. Fairness is determined by the way that net contributions (cash contributions minus transfers in cash and kind) are distributed.

Redressing inequities in revenue generation – OOPs, private health insurance, and in overall public finance – is critical to moving closer to UHC and maintaining past gains. But redressing inequity is only one of the objectives of social policy as described earlier. There are, however, some unacceptable trade-offs that should be avoided along the paths to UHC. It would be unacceptable to:

- Increase OOPs for a guaranteed package of personal health services without a working exemption system or compensating transfers to protect the poor, other people at risk of severe financial hardship from OOPs (financial catastrophe or impoverishment), and people who risk being deterred from using needed services.
- Raise other types of revenues for health in ways that make the financing system less progressive without compensatory measures that ensure that the post-tax, post-transfer disposable income distribution less equal.

A lot is known about the progressivity or regressivity of particular financing instruments – i.e. general value added taxes tend to be regressive in terms of the financial burden, although they can be made more progressive by exempting necessities such as food. Tobacco taxes are regressive in terms of financial burden but progressive in terms of health benefit. Income taxes are generally more progressive but difficult to collect when the formal sector is small. These issues will not be the focus of Plenary 1.

Instead, Plenary 1 will explore how Ministry of Finance (MoF) and Ministry of Health (MoH) officials think about equity issues in raising and spending revenues and whether there is, or can be, an effective partnership between MoF and MoH on equity in financing, that considers both the revenue generation and the expenditure sides. Participants will share viewpoints and experiences on a range of issues including:

- When considering ways to increase government revenues for health, are expenditure questions considered at the same time?
- Does the MOF see health spending as being one way to compensate the poor because it has the potential to be very pro-poor?
- Do MoF and MoH officials have different viewpoints on the value of health insurance, and whether it should be employment based, or funded through individual contributions or general government revenues?
- How are MoF staff considering the options to increase funding to compensate for the withdrawal of development assistance for health in countries where that is happening? How do equity concerns affect these conversations?
- Do views of the equity impact of "sin taxes" – or taxes on products that are harmful to health - differ across MoH and MoF officials, and if so, can they be reconciled?

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[2] The term progressivity is used in its strict sense, that the rich pay a higher proportion of their income than the poor. Regressivity is where this does not happen.