HEALTH AND HUMAN DEVELOPMENT

Azerbaijan Human Capital Forum

December 19-21, 2018

Investing in People's Health to Accelerate Human Capital Development

Investment in health is not only a desirable, but also an essential priority for development

- ✓ Countries with weak health and education conditions find it harder to achieve sustained growth.
- ✓ Evidence suggests that a 10% improvement in life expectancy at birth is associated with a rise in economic growth of 0.3-0.4% points a year.
- ✓ A country whose citizens enjoy long and healthy lives clearly outperforms another with the same GDP per capita but whose citizens suffer much illness and die sooner

Better health raises per capita income through a number of channels (1)

- By altering decisions about expenditures and savings over the life cycle.
  - ✓ Idea of planning for retirement occurs only when mortality rates become low enough for retirement to be a realistic prospect.
- Another channel is by encouraging foreign direct investment:
  - ✓ Investors shun environments where the labor force suffers a heavy disease burden.
  - ✓ Endemic diseases can also deny humans access to land or other natural resources
- Better health matters more for countries with good economic policies, such as openness to trade and good governance.
  - ✓ the East Asian growth miracle in 1990s was actually no miracle at all: rather, it represents compelling evidence for a process in which health improvements played a leading role in the context of generally favorable economic policies (Bloom, Canning, and Malaney, Harvard University)
  - ✓ 30% of the GDP growth in Britain between 1780 and 1979 is due to better health and nutrition
  - ✓ 11% of the income gains in developing countries between 1970 and 2000 were attributable to lower adult-mortality rates.

Better health raises per capita income through a number of channels (2)

- **Healthy workers are more productive than workers who are otherwise comparable but for their health.**
  - ✓ Lower life expectancy **discourages adult training** and **damages productivity**.
  - ✓ The **earlier** you invest the **greater** the return on that investment.
  - ✓ Equal opportunity from the **beginning of life** can build up the capacities and potential that each person has.
  - ✓ **Improving health** is associated with children receiving **more schooling** and going on to earn **more money** in adulthood.
  - ✓ It is necessary to **intervene simultaneously** in the different fields and contexts of child development.

" Parents need help and their children will suffer if they don't get it. Society will pay the price in higher social costs and declining economic fortunes."

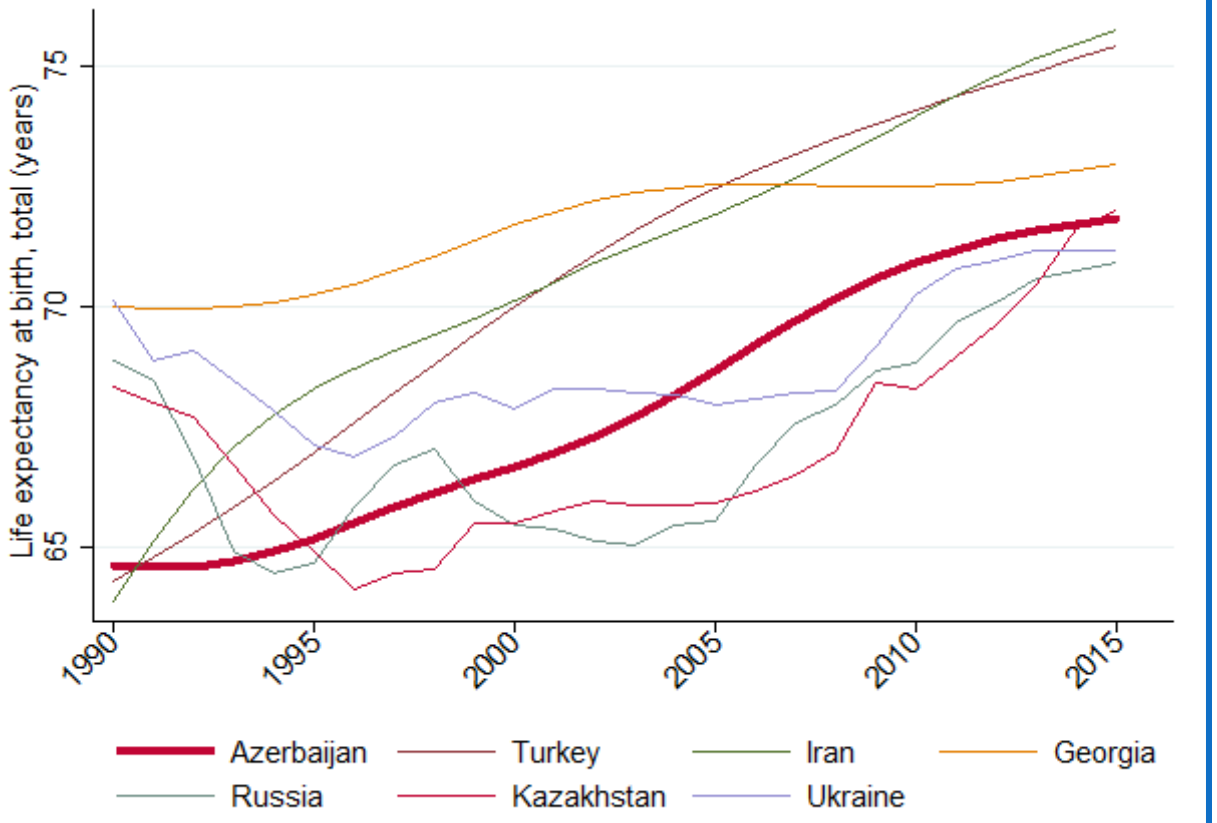
James Heckman, Nobel Laureate in Economics, 2000

Azerbaijan’s Health System

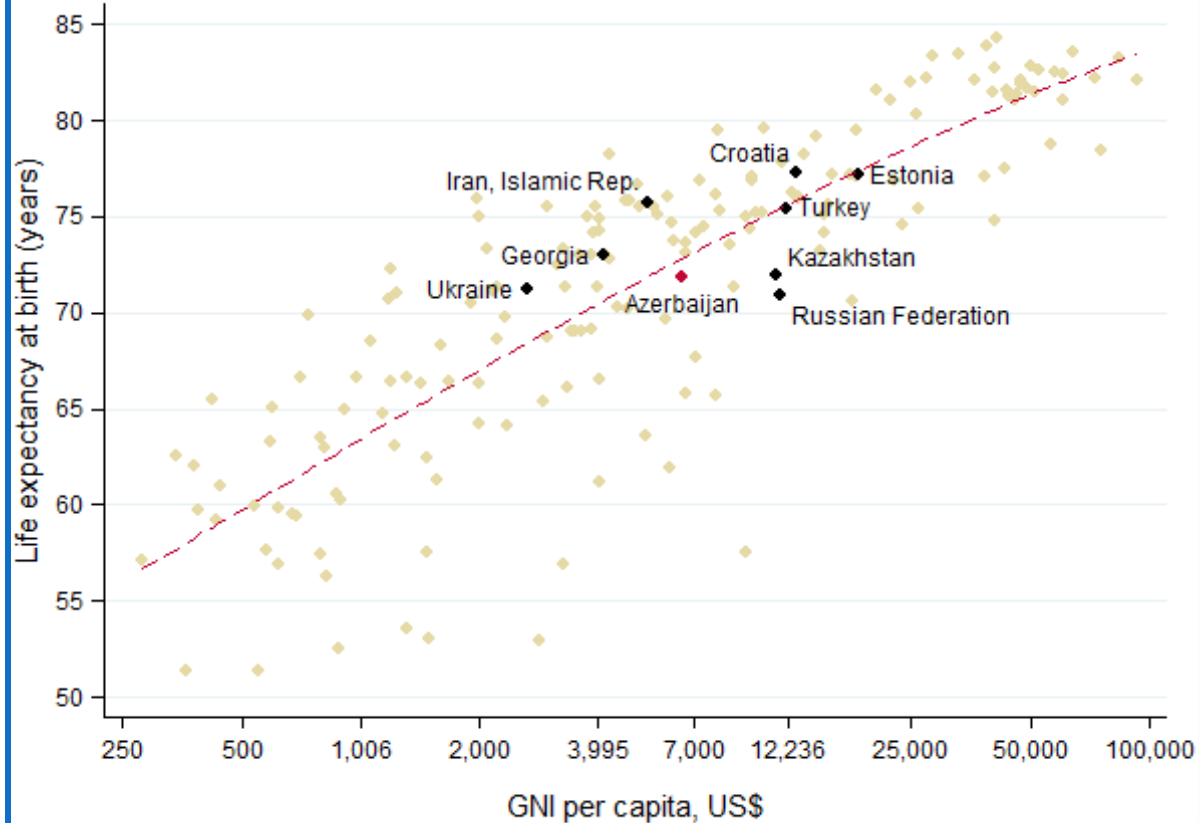
Azerbaijan has achieved significant improvements in key health outcomes

Life expectancy has increased and is about average for Azerbaijan's income level

1990-2015

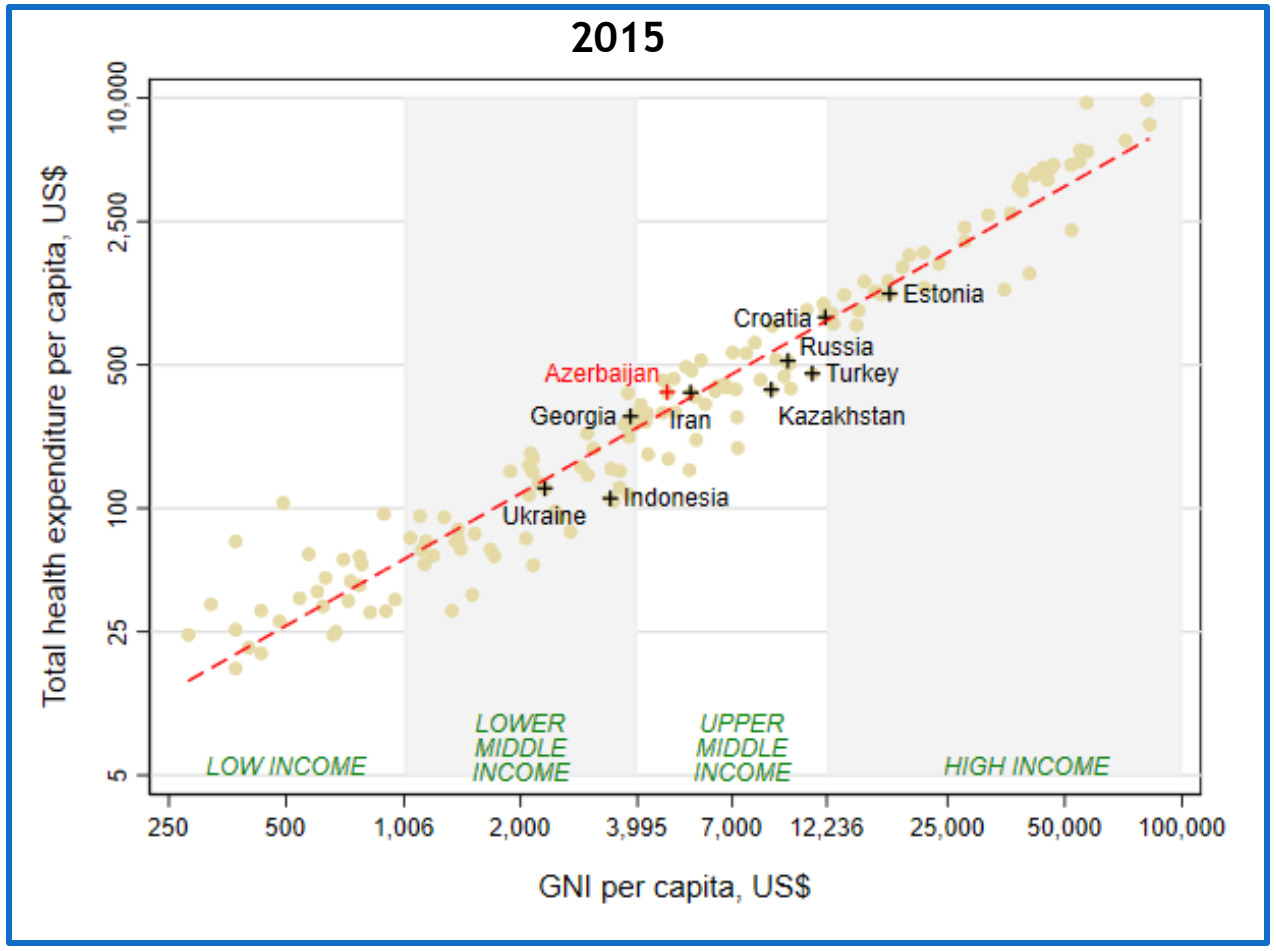


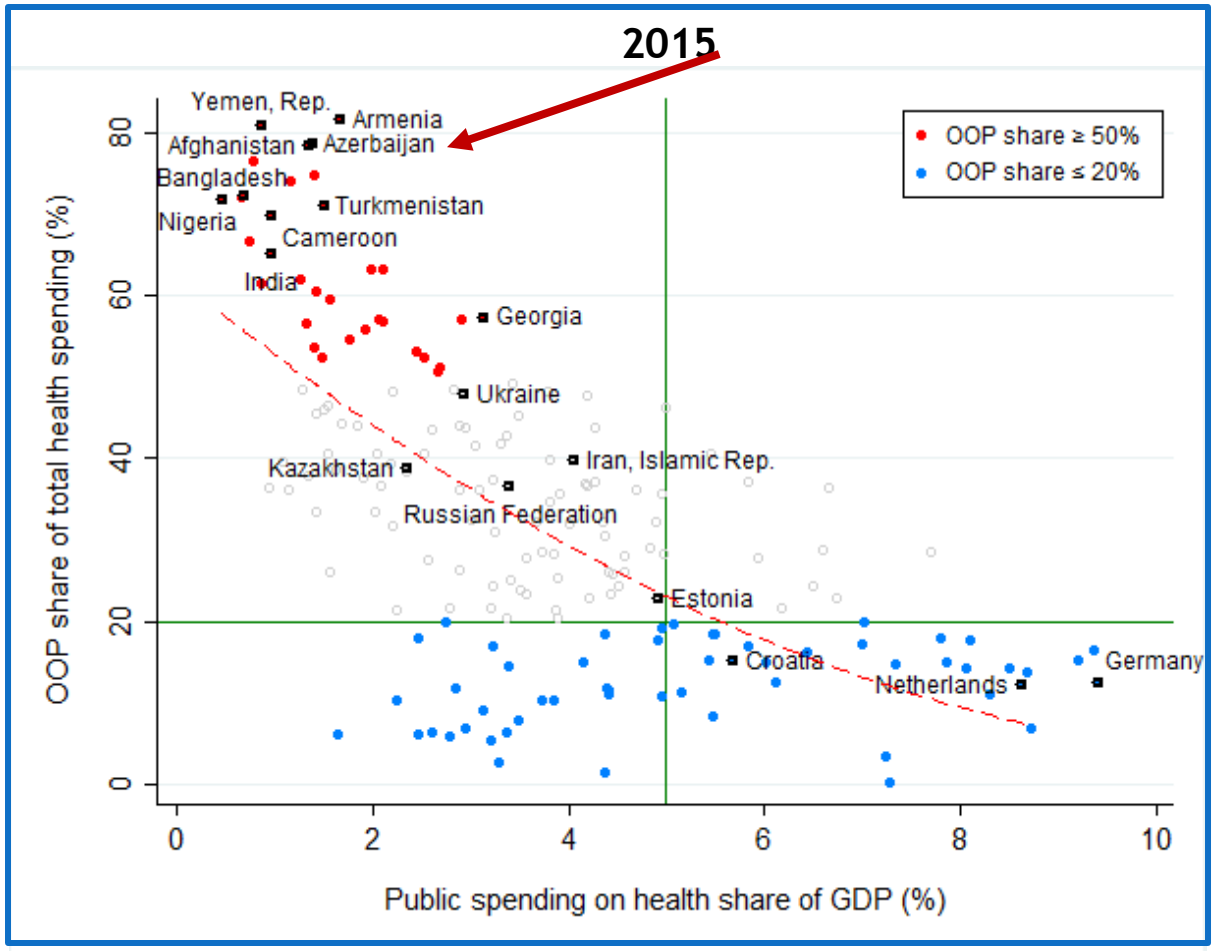
2015



Total health spending is about average for Azerbaijan's income level, but the health system is predominantly financed by out-of-pocket payments

OOP spending represents 79% of current health spending



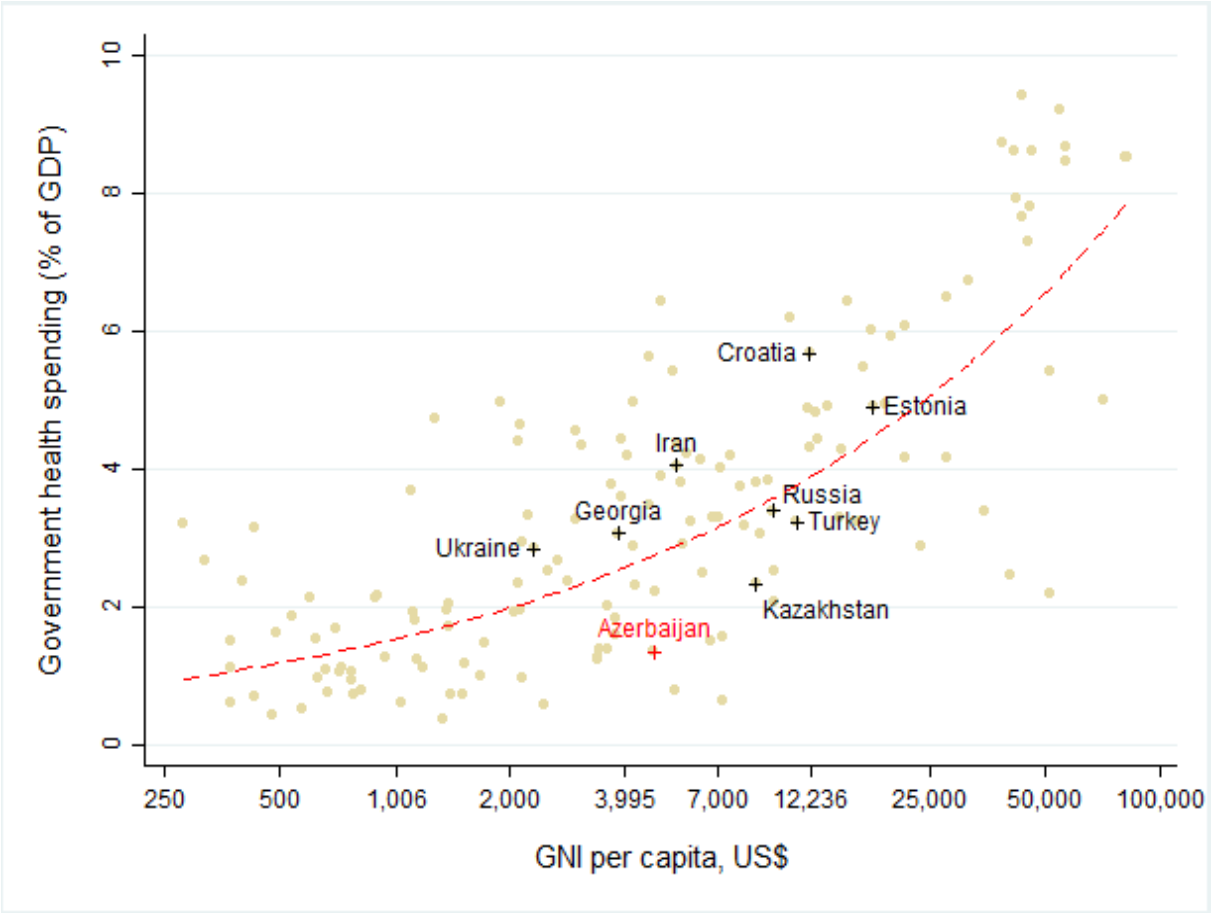


Inefficient and regressive method of health financing, through OOP expenditures can expose whole populations to huge cost burdens that block development and simply perpetuate the disease/poverty trap

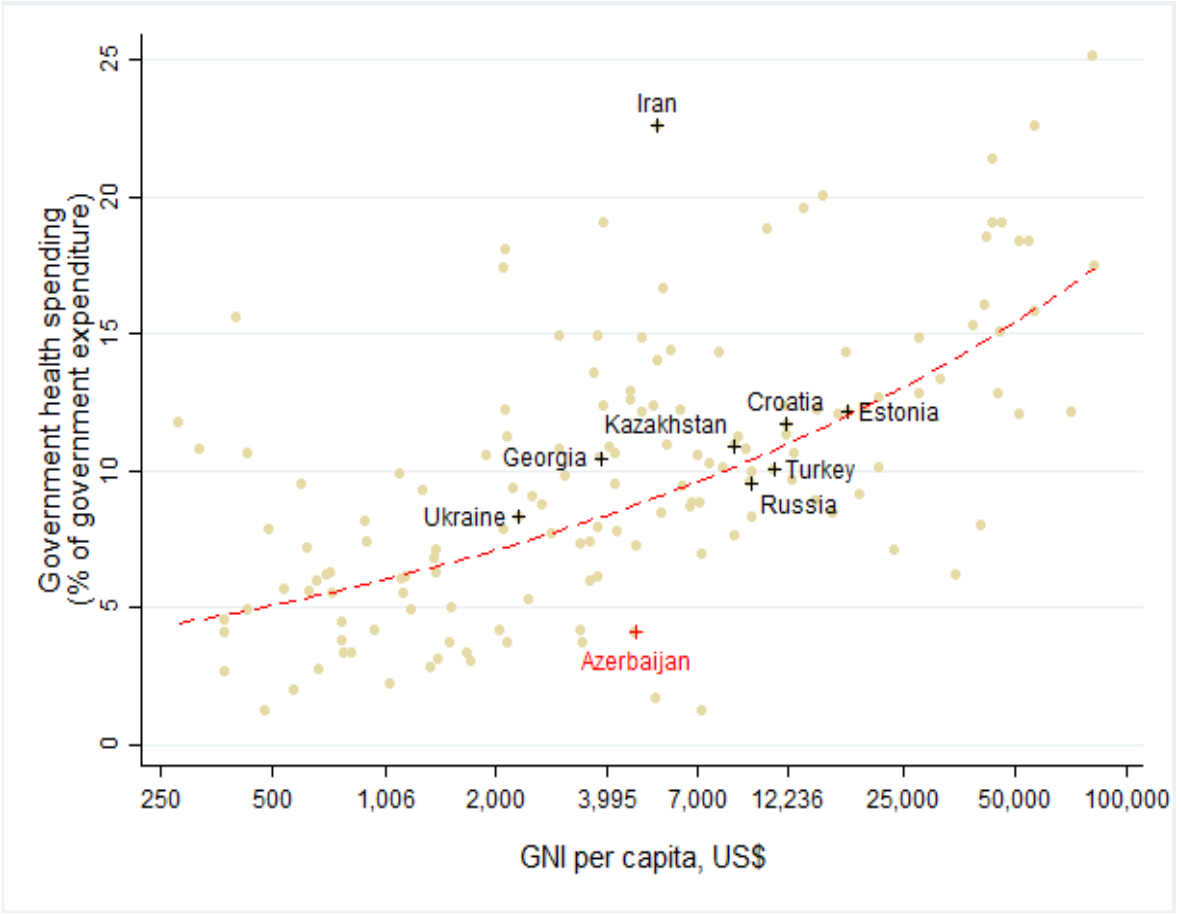
WORLD BANK GROUP

Government health spending is significantly below global averages, representing only 1.4% of GDP and 4.2% of government expenditures in 2015

Government health spending as a share of GDP (%), 2015



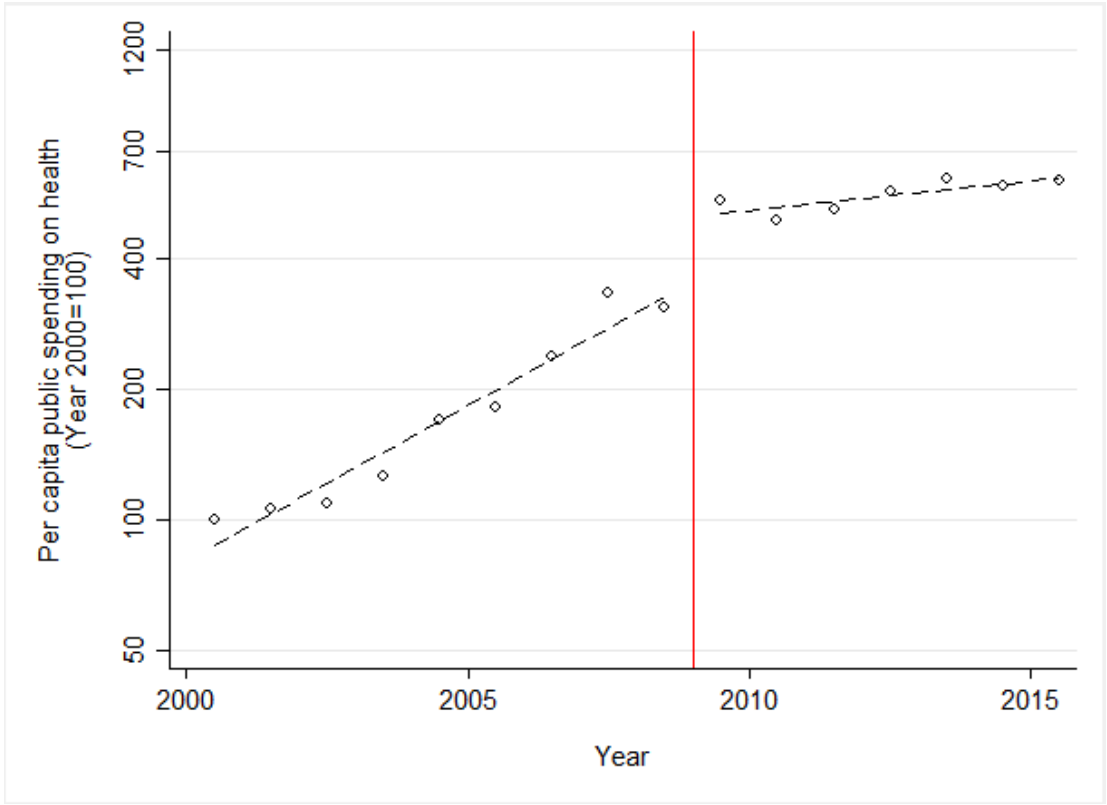
Government health spending as a share of government expenditure (%), 2015



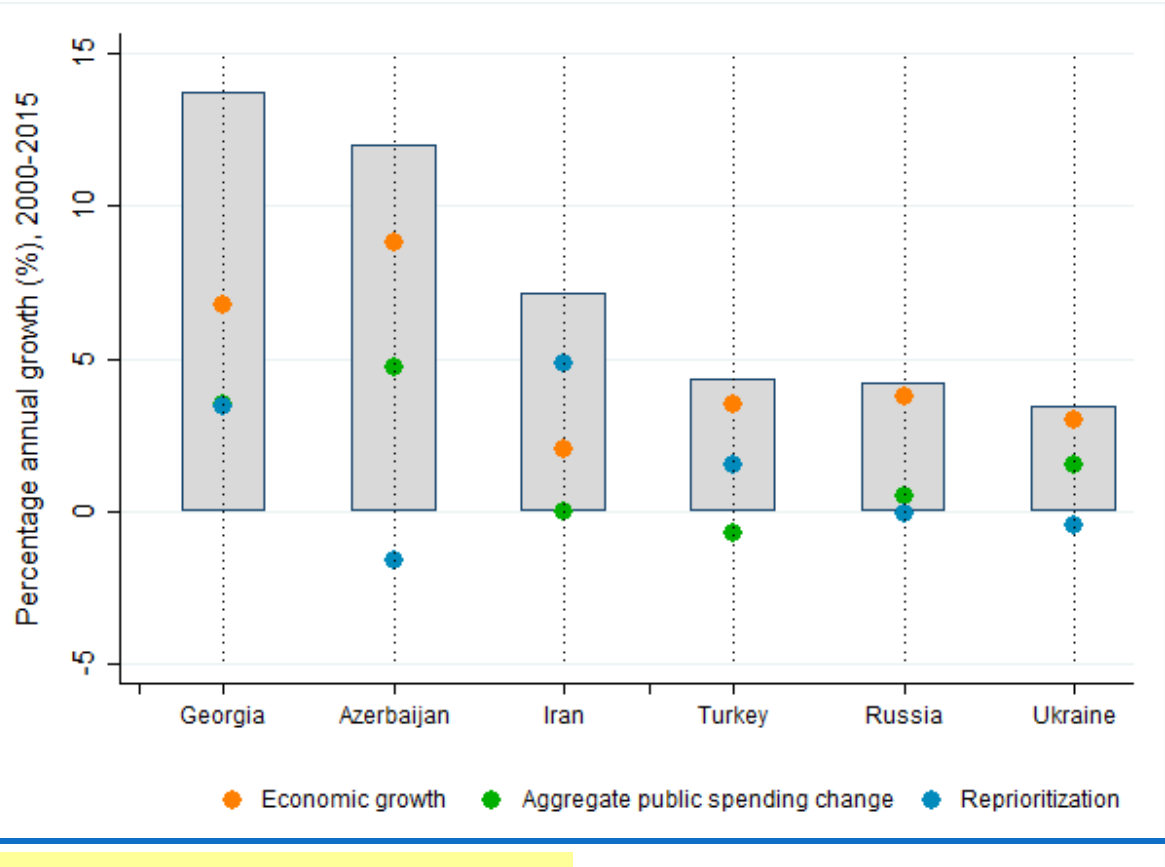
WORLD BANK GROUP

Per capita government spending on health increased significantly since 2000, largely due to economic growth

Per capita government spending on health, 2000-2015



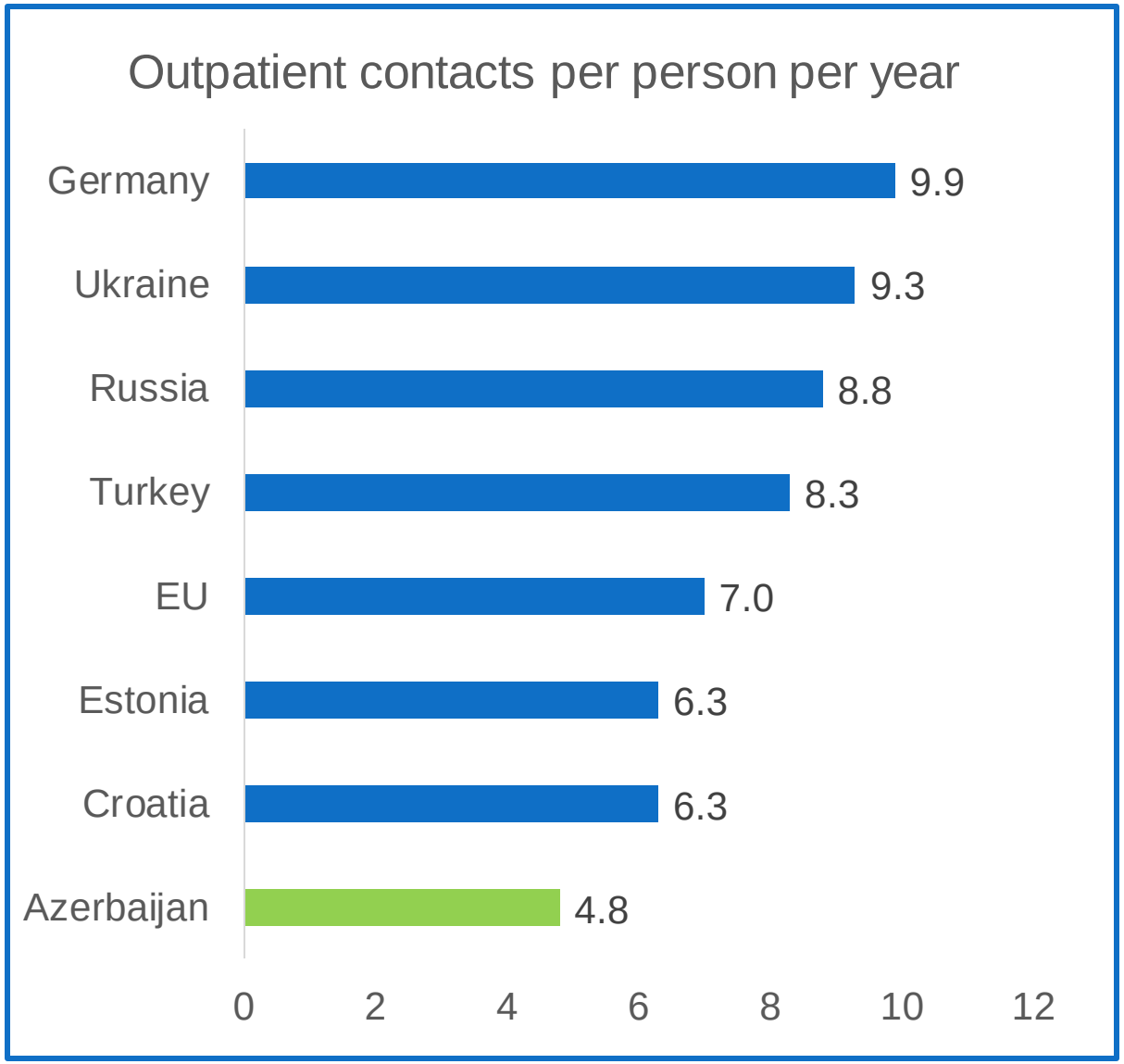
Percentage annual growth in real per capita government health spending, 2000-2015



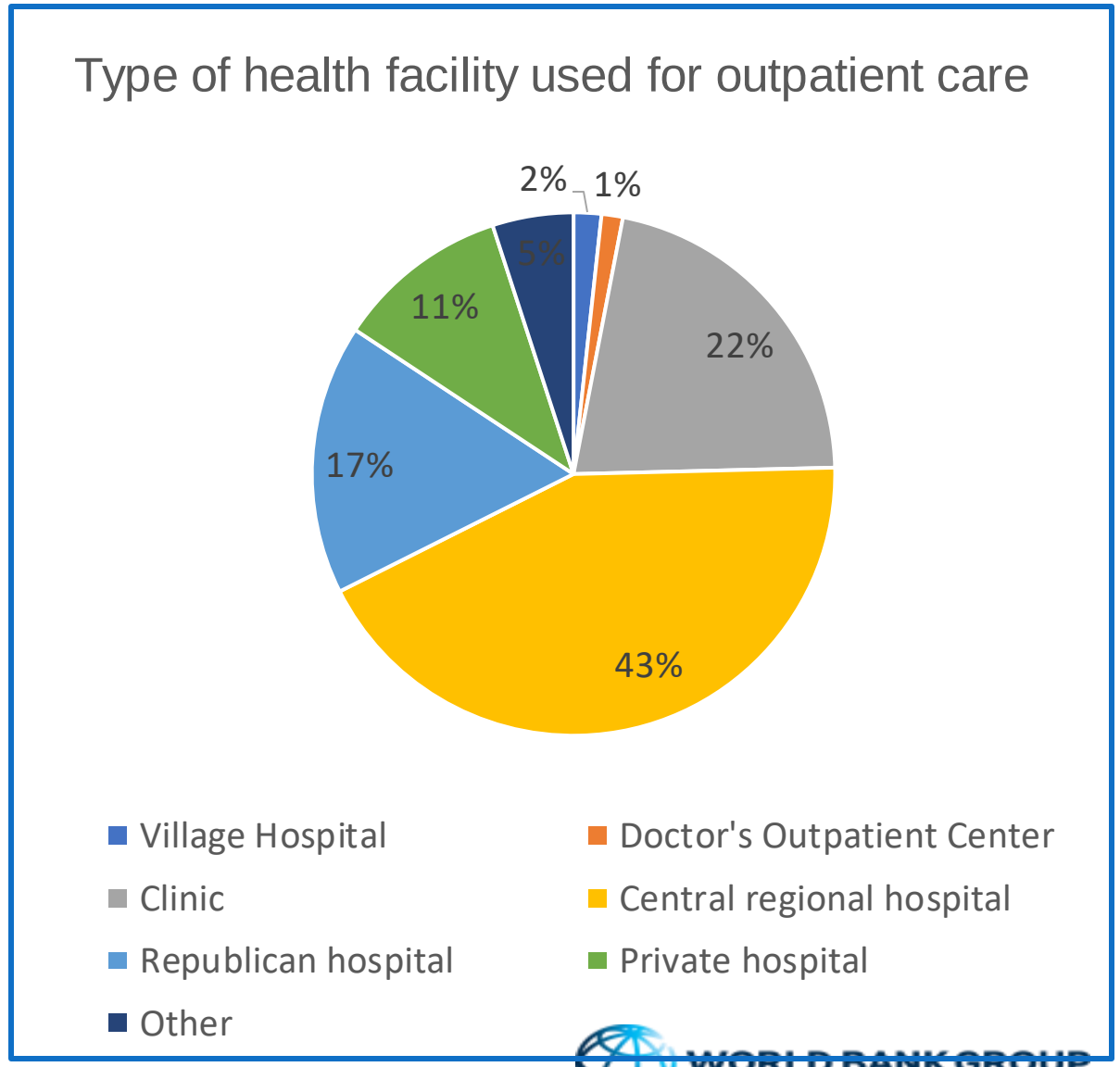
Reprioritization of Health: **Azerbaijan's 2019 health budget has increased significantly, 41.8% compared to 2018, and reached 1.048 billion Manat**

WORLD BANK GROUP

Low and inefficient utilization of services



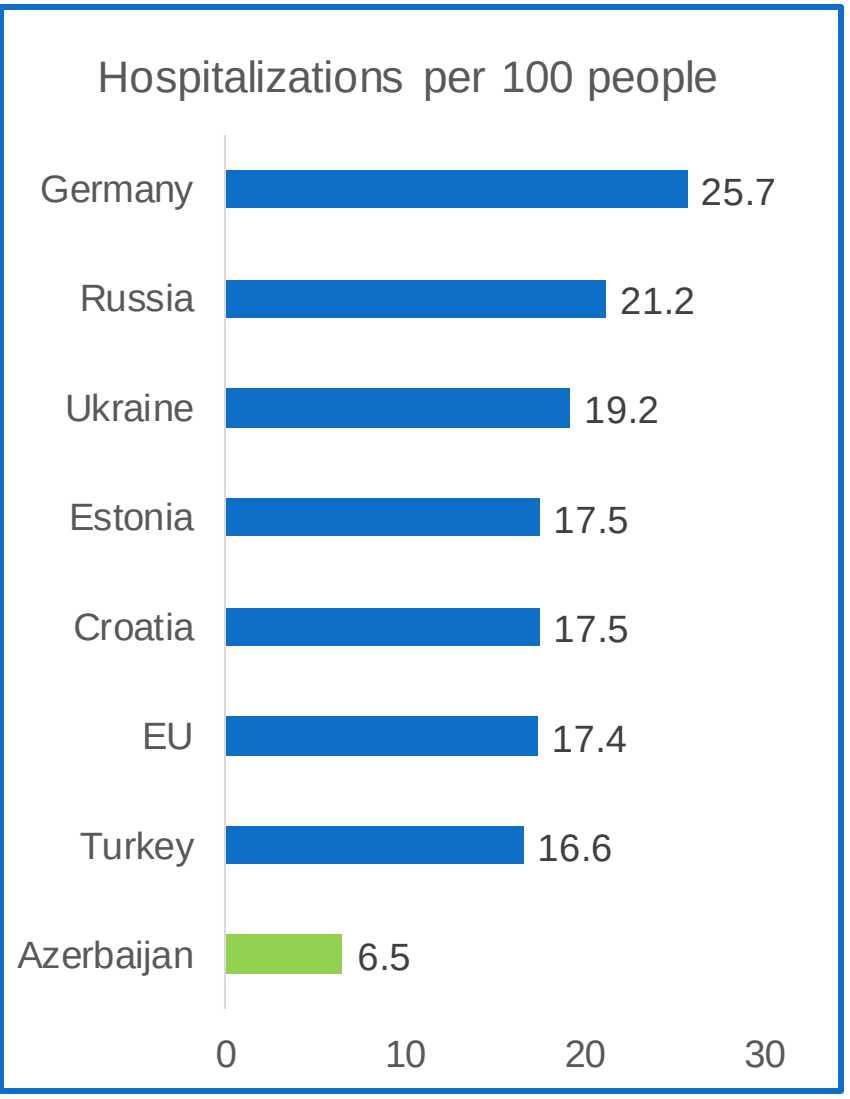
Source: WHO Health for all Database

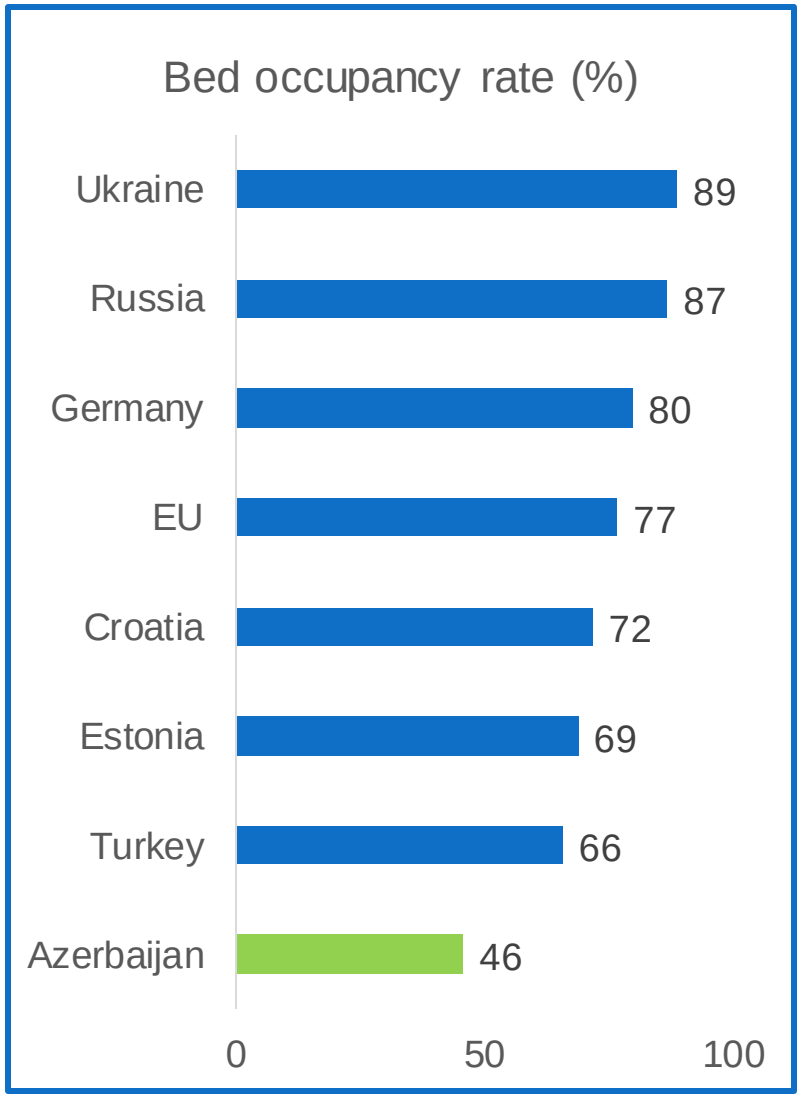


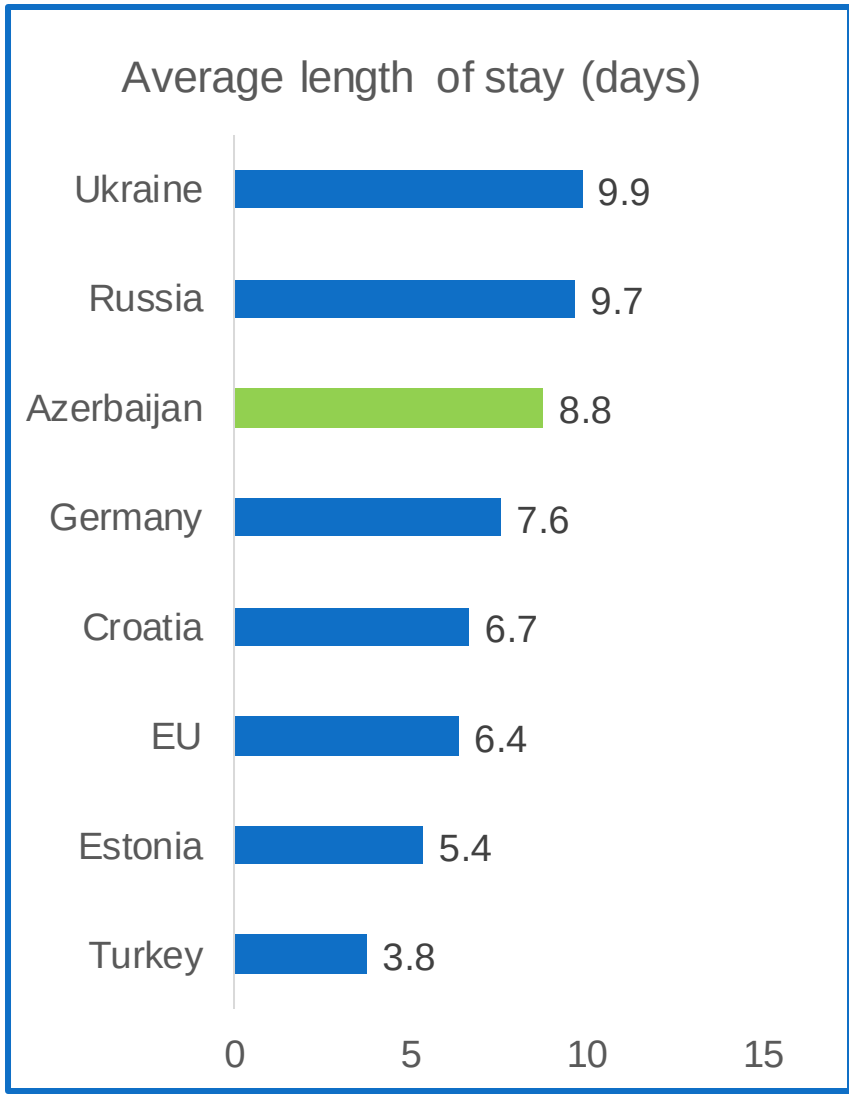
Source: AMSSW survey 2015

WORLD BANK GROUP

Low and inefficient utilization of services







Source: WHO Health for all Database

WORLD BANK GROUP

Possible solutions to the main challenges in Azerbaijan's health system

MAIN CHALLENGES	POSSIBLE SOLUTIONS
High OOP expenditure on health resulting in limited financial risk protection	Increase revenue collection and pooling
Inefficient allocation of available public financial resources	Define a package of services to be fully funded with public resources
Low productivity of providers due to input-based payment	Pay for outputs not inputs
Hospital based model of care not adapted to burden of disease	Change the model of care – PHC should be the first level of entry and ensure early detection, control, continuity of care

WORLD BANK GROUP

Mandatory Health Insurance Pilot

The Mandatory Health Insurance Pilot attempted to address some of the existing problems in the health system

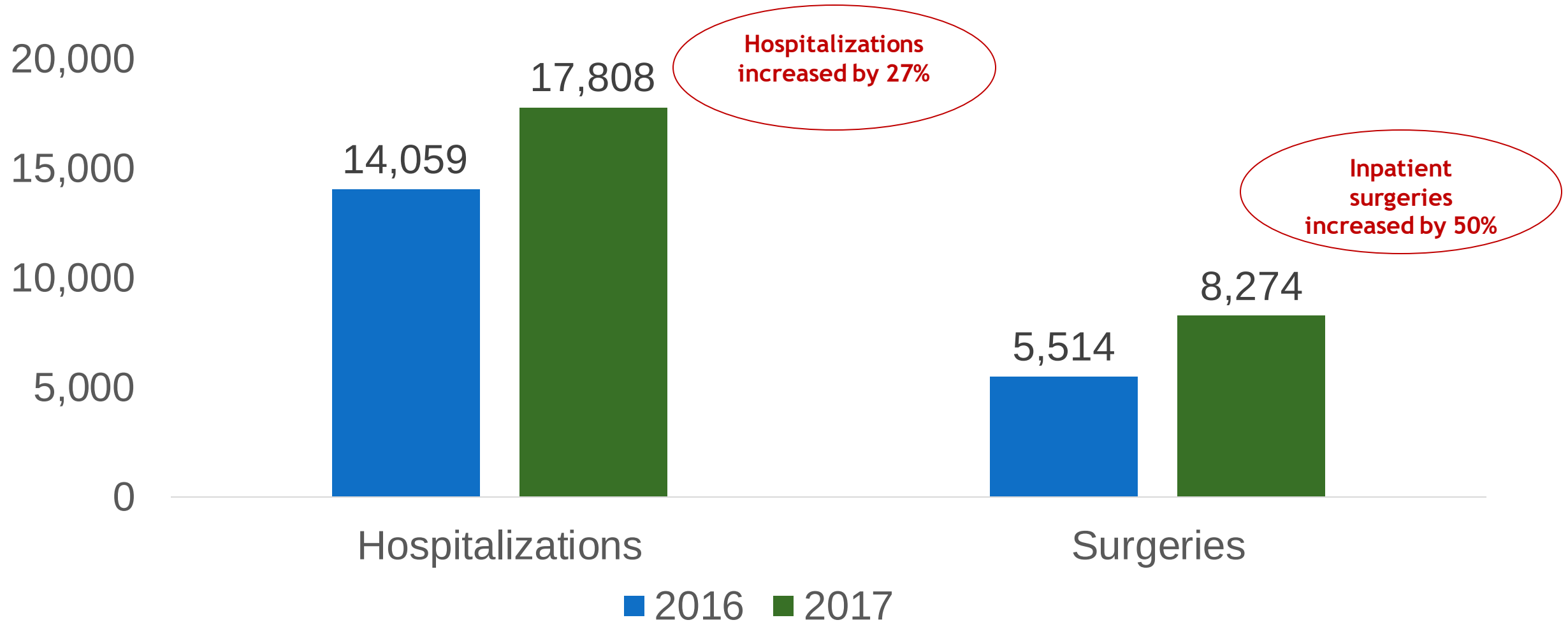
Progress to date:

- ✓ Shift from input to output-based financing
- ✓ Defined benefits package
- ✓ Reduction in out-of-pocket spending
- ✓ Improved efficiency of service delivery

Remaining challenges:

- × Focus on hospital care
- × Weak primary care
- × Costing and revision of benefits package

Higher utilization:
Utilization of inpatient services increased in the two pilot rayons



WORLD BANK GROUP

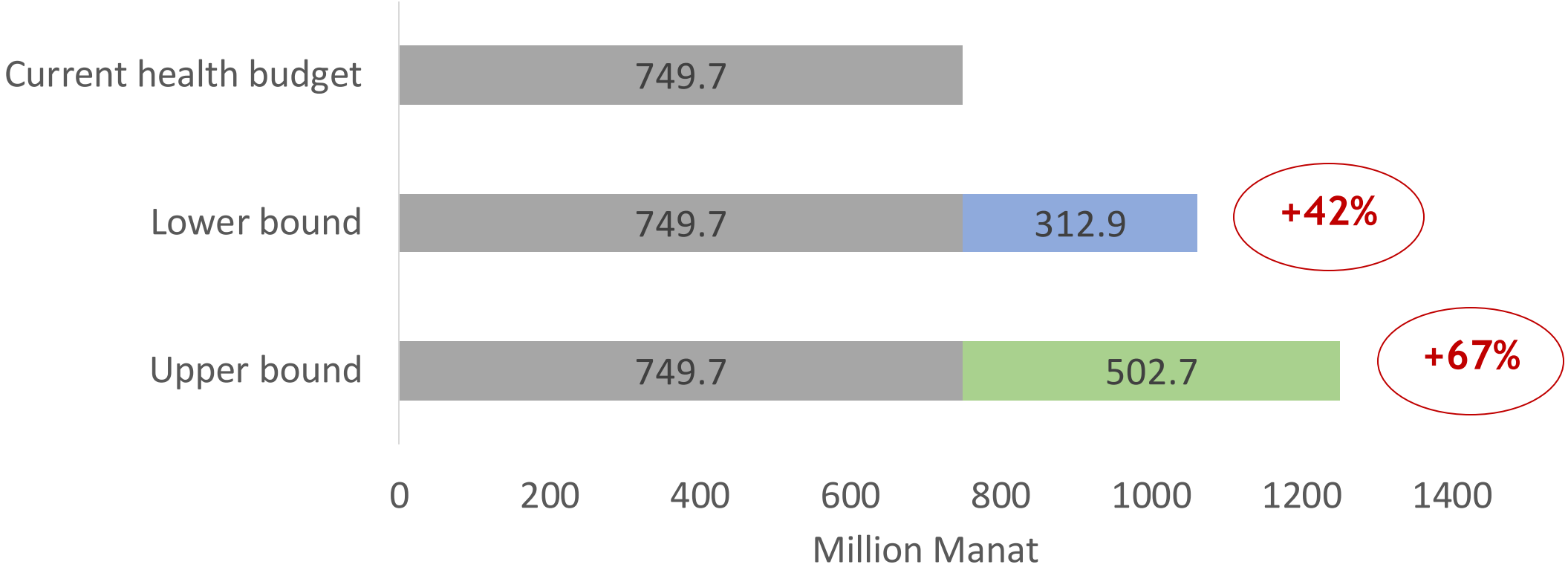
Higher budgetary allocations:
Government spending on health increased by almost 70% in the two Pilot rayons

Expenses (in thousands Manat)	Yevlakh			Mingachevir			Total		
	2016	2017	change	2016	2017	change	2016	2017	change
Utilities	218.1	359.2	65%	388.9	421.0	8%	607.0	780.2	29%
Other expenses	317.0	766.9	142%	601.2	471.9	-22%	918.2	1,238.8	35%
Catering	94.2	201.6	114%	247.4	568.1	130%	341.6	769.6	125%
Medicines and consumables	349.4	591.0	69%	391.0	1,331.0	240%	740.4	1,922.0	160%
Salaries	3,123.4	4,781.1	53%	6,069.5	9,754.3	61%	9,192.9	14,535.4	58%
Capital investment	238.1	919.4	286%	556.3	1,220.2	119%	794.4	2,139.6	169%
Total	4,340.2	7,619.2	76%	8,254.2	13,766.4	67%	12,594.4	21,385.6	70%

If capital investment expenditure is excluded, government spending on health increased by 63% in the two Pilot rayons

WORLD BANK GROUP

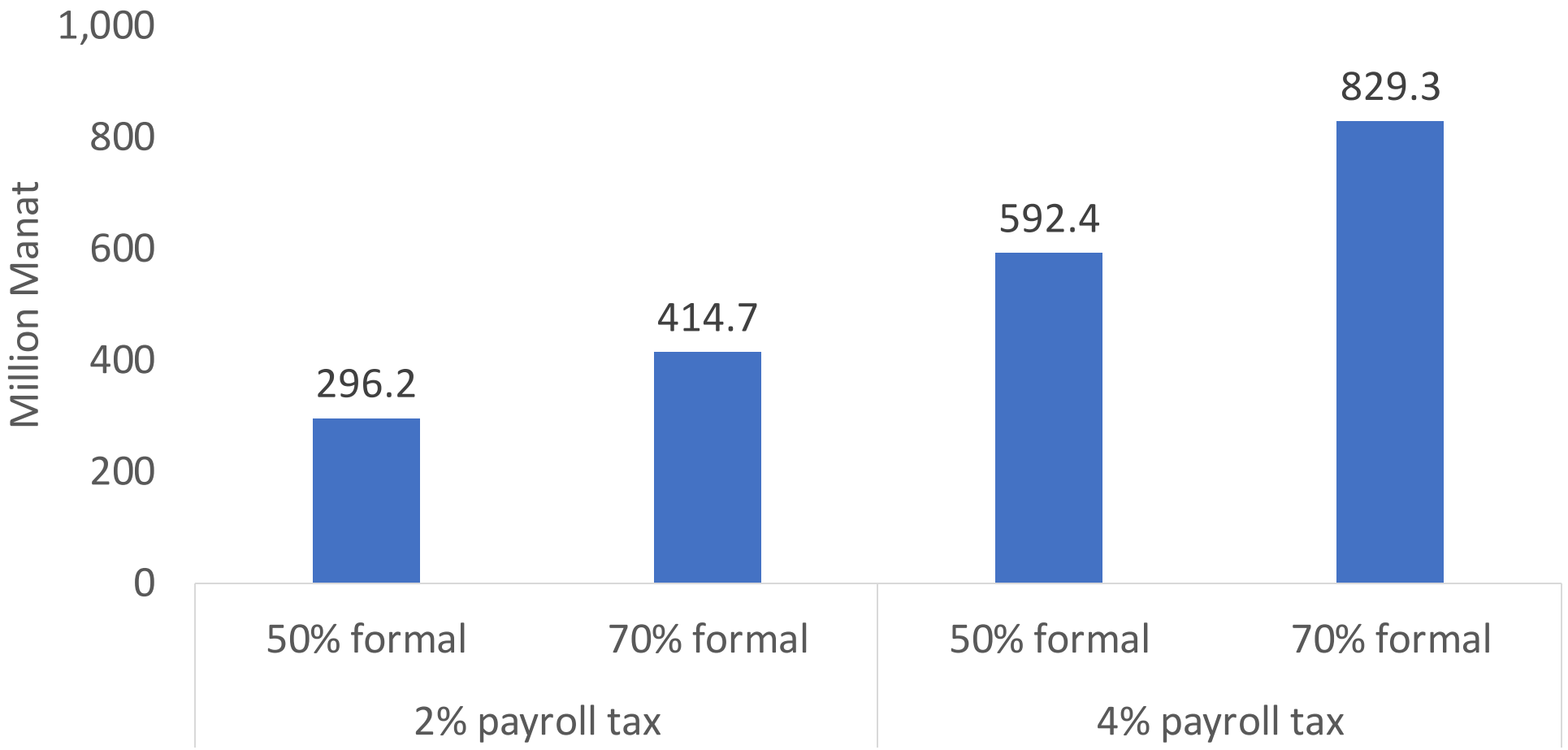
Substantial additional investment is needed if the MHI program is rolled out nationwide



Increasing the price of cigarettes from 2.87 AZN/pack to 4.89 AZN/pack will bring an additional 692 million AZN and can cover the cost of rolling out MHI nationwide

WORLD BANK GROUP

Possible sources of additional revenue: payroll tax



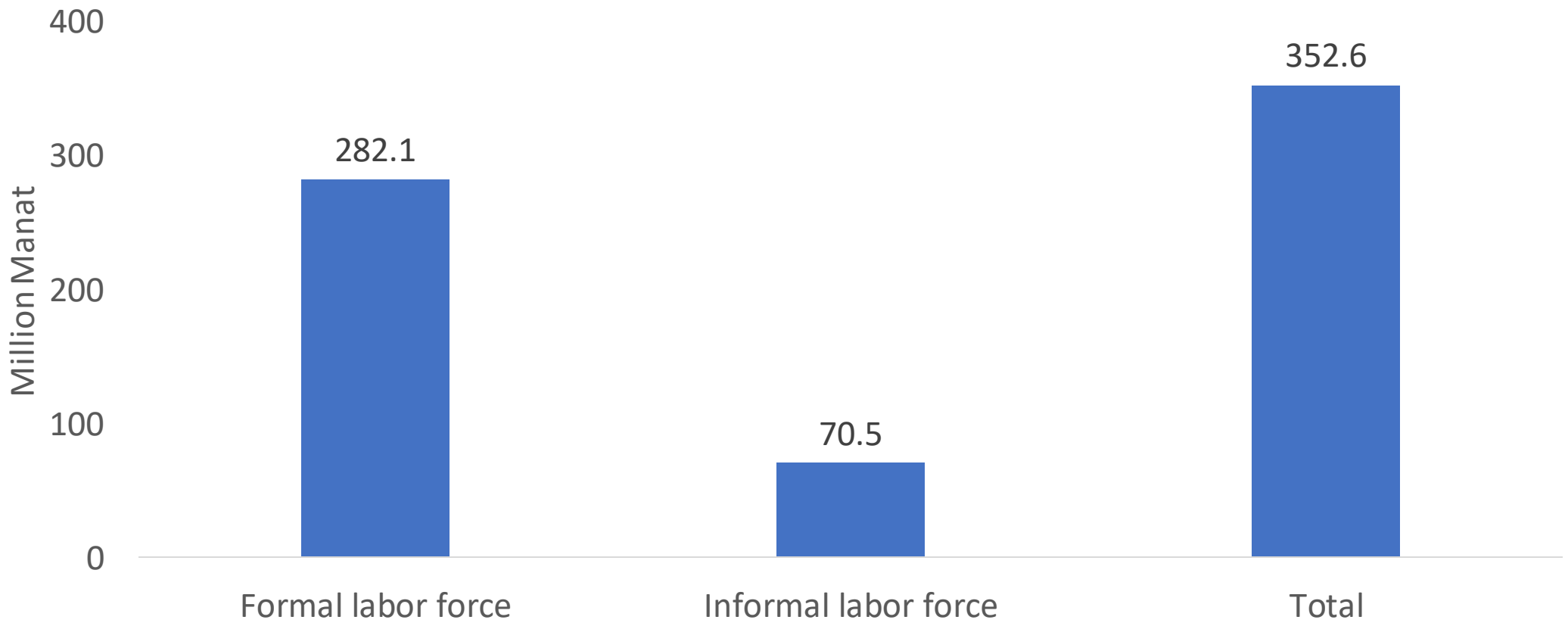
Assuming that the informal sector does not contribute at all

WORLD BANK GROUP

Possible sources of additional revenue: flat rate contribution

Monthly flat rate contribution

10 AZN for formal workers and 5 AZN for informal

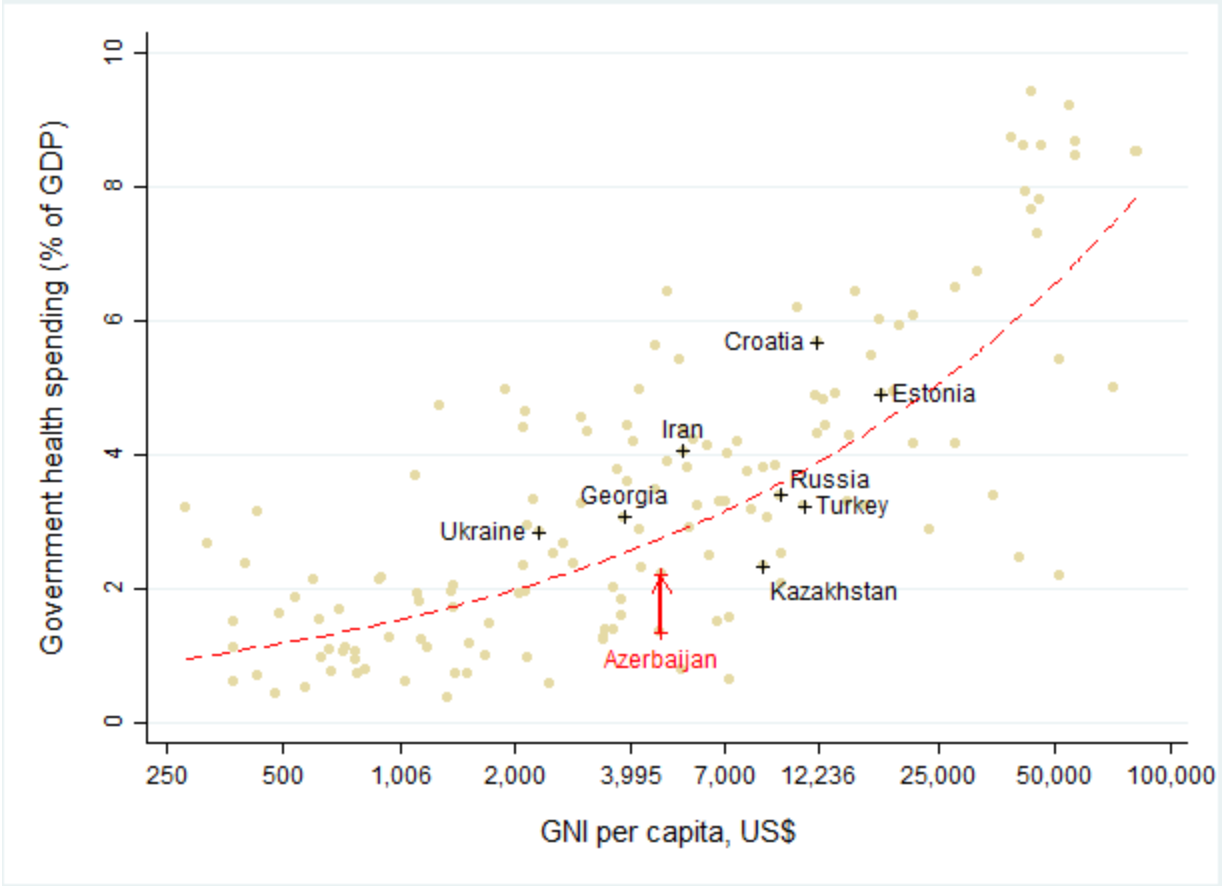


Assuming that 50% of the labor force is employed in the formal sector and only 50% of those in the informal sector pay the flat rate contribution

Importantly, even after increases in government spending on health, Azerbaijan would still have lower health spending than other comparable countries

Country	Government spending as a share of GDP (%)
Iran	4.05%
Russia	3.40%
Turkey	3.23%
China	3.18%
Georgia	3.08%
Thailand	2.91%
Vietnam	2.36%
Kazakhstan	2.34%
Azerbaijan (after estimated increase)*	2.07%

*Based on upper bound estimate of spending after MHI is rolled out nationwide



WORLD BANK GROUP

Possible model of SHI

State makes contributions from general tax revenues

Pregnant, children, students, retired, officially unemployed

Unofficially employed

Payroll-based tax contributions

Working, officially employed

State:
% from Average monthly salary

Stimulus to move into formal sector

Employer and employee:
% of declared income of employee

WORLD BANK GROUP

Conclusion

- **Expanding SHI primarily through payroll-based contributions not viable**
- **General tax revenues critical for ensuring coverage for not only the poor, but also large parts of the informal sector**
- **This requires:**
  - increasing general revenue allocations for health
    AND
  - getting better value for money
- **Questions to think about:**
  - How to finance the mandatory health insurance nationwide?
  - How to address inefficiencies in the health system?
  - What are the roles of different actors in the health system (e.g. SAMHI, MoH)?

WORLD BANK GROUP

Thank you!