

Earmarking for the health sector: Experience and considerations

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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

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

EARMARKING: AN AGNOSTIC PERSPECTIVE

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

Cashin C, Sparkes S, and Bloom D (2017). Earmarking for health: from theory to practice. WHO/R4D Health Financing Working Paper No.5

Earmarking Revenue - Country Experience

R4D is collaborating with the World Health Organization to identify countries that earmark revenue for the health sector through earmarked revenues and to examine their impacts on health financing and health outcomes.

This database represents the country experience with earmarking for health. The data is based on country reports and is accurate and up to date!

Country	Income Tax	Payroll Tax	Excise Tax	Other
Albania	●			
Algeria	●			
Argentina	●			
Australia	●			
Austria	●			
Barbados	●			
Belarus	●			
Belgium	●			
Bolivia	●			
Bosnia & Herzegovina	●			
Brazil	●			●
Bulgaria	●			
Canada	●			
Chile	●			
China	●			
Colombia	●			
Costa Rica	●			
Croatia	●			
Czech Republic	●			
Denmark	●			
Djibouti	●			
Dominica	●			
Egypt	●			
Estonia	●			
Finland	●			
France	●			
French Polynesia	●			
Gabon	●			
Germany	●			
Ghana	●			●
Greece	●			
Guatemala	●			
Guinea	●			
Honduras	●			
Hungary	●			
Iceland	●			
India	●			
Indonesia	●			
Ireland	●			
Israel	●			

* Includes earmarking of revenue from other sources such as debt relief, mobile phone turnover, personal money transfers, and formal sector insurance transfers.

Earmarking Revenues for the Health Sector: Practical Experience, Results, and Challenges

Introduction

One way countries look to increase fiscal space for resource mobilization for the health sector is through earmarked revenues. These resources are generated by taxes or contributions whose revenues are designated to be spent on a particular program or use. There are many arguments for and against earmarking, but they often remain theoretical. In spite of the vast country experience using this policy instrument (more than 80 countries earmark revenues for health), very little empirical evidence has been applied to the debate. Furthermore, the literature is scant on the characteristics of earmarking instruments and contextual factors that are more likely to help realize the potential benefits of earmarking (such as increased revenues for health), while minimizing potential negative consequences (such as reduced flexibility in the budget process and taking resources away from other priorities).

Ghana has more than ten years of experience with earmarking to fund its National Health Insurance Scheme (NHIS). The National Health Insurance Act (Act 650) of 2003 established a National Health Insurance Authority (NHIA—the managing body) and a National Health Insurance Fund (NHIF—a state-owned fund), as well as the “health insurance levy,” which is 2.5 percentage points of the value-added tax (VAT) is earmarked for the NHIS. Other source of funding include an earmarked 2.5 percentage point of the total 17.5 percent contribution to the Social Security and National Insurance Trust (SSNIT) by formal sector workers, as well as investment income, and premiums paid by non-exempt individuals such as self-employed and informal sector workers. The earmarked VAT and SSNIT revenues contribute 90 percent of the growing funding base for the NHIS.

This policy note examines Ghana’s experience with earmarking revenues to fund the NHIS from the perspective of 10 stakeholders from health agencies

HEALTH FINANCING WORKING PAPER No. 5

EARMARKING FOR HEALTH

From Theory to Practice

securing adequate, stable, and reusable resources for the NHIS;

- Whether the earmarking has resulted in any negative fiscal consequences, such as greater budget rigidity, offsets or cuts in other areas of the budget, etc.;
- Any bottlenecks or challenges with the flow of funds, transfers to the NHIF, or other operational aspects of the earmarks.

WHICH COUNTRIES EARMARK 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)

At least 80 countries are using earmarking for health

Countries use income or payroll tax to fund health care for the population or formal-sector workers in a public scheme.

Countries earmark a portion of their value-added tax (VAT).

Countries earmark general revenue for health causes.

Countries earmark a portion of transfers from the national level or earmark revenue generated at the subnational level for health spending.

Countries earmark all or a portion of revenues from tobacco taxes.

Countries earmark all or a portion of revenues from taxes on alcohol sales.

Countries earmark revenue from taxes on other goods that can negatively affect health (e.g., sugar-sweetened beverages).

Countries earmark all or a portion of revenue generated from lotteries.

Country introduced an earmarked levy on foreign personal money transfers and mobile phone company revenue.



35 countries earmark tobacco taxes

21 countries earmark other health taxes

Other instruments
Lotteries, mobile phone companies, and foreign personal money transfers

Source: www.jointlearningnetwork.org/earmarking

CONSIDERATIONS FOR HEALTH FINANCING AND UHC

Adoption

- Objectives and timing matter
- Source matters

Design

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

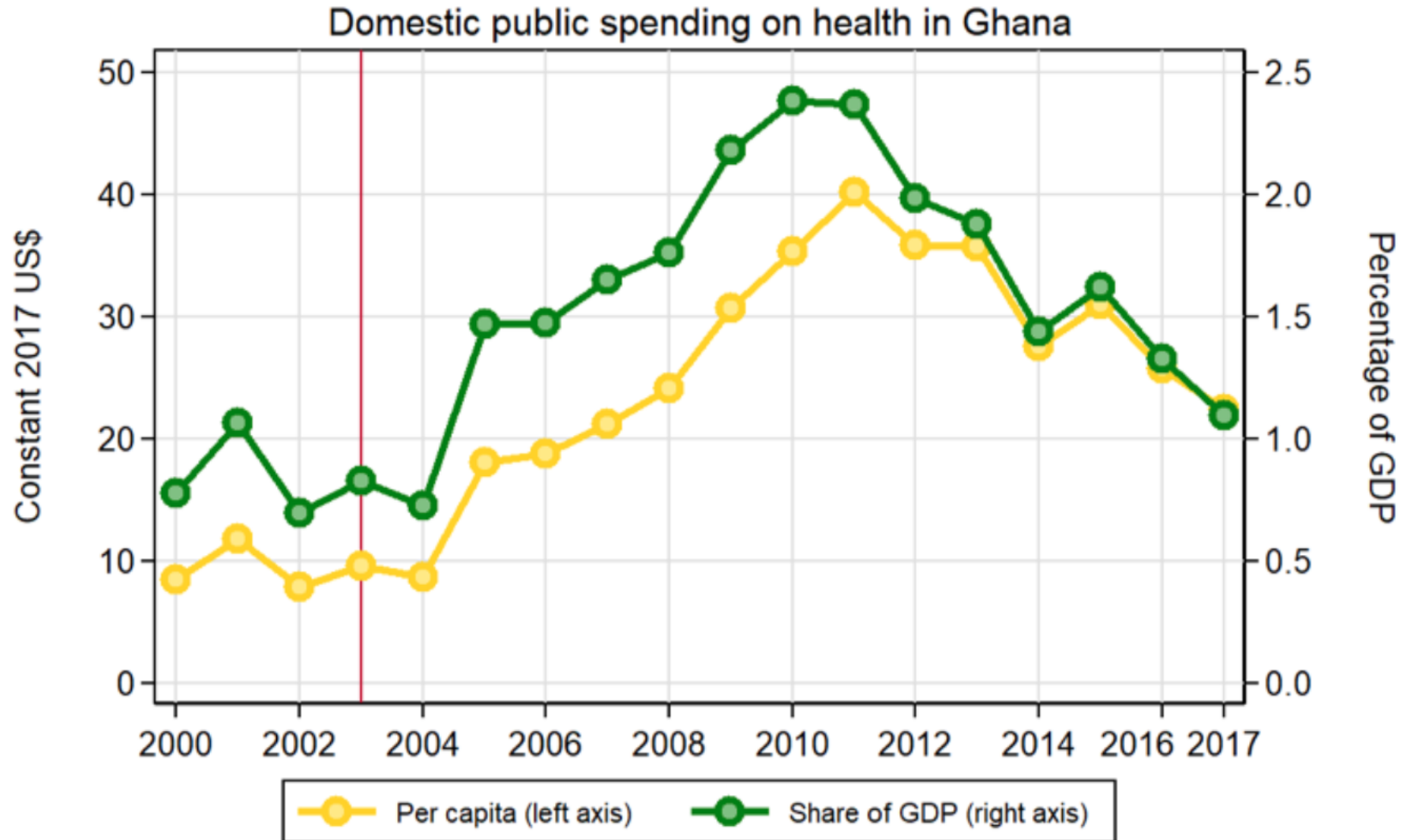
Implementation

- 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?



Note: Vertical red line indicates when National Health Insurance Scheme was established.

EARMARKING IN LATIN AMERICA AND CARIBBEAN

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

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



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?

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CONTACT DETAILS

Thank you!

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