Health Financing Working Paper No. 5

Earmarking for Health

From Theory to Practice

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World Health Organization

RESULTS FOR DEVELOPMENT

Earmarking for health: checklist of key considerations

Countries that are considering earmarking for the health sector should address the following key questions. This checklist can guide discussions among health and finance policy-makers about when earmarking might be useful and how to structure an earmarking policy to ensure positive results and minimize distortions.

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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Executive Summary

Many countries are considering earmarking as a mechanism to increase fiscal space and mobilize resources for the health sector, to finance progress toward universal health coverage (UHC), or to fund other health priorities. Earmarking involves separating all or a portion of total revenue – or revenue from a tax or group of taxes – and setting it aside for a designated purpose. Earmarking has become part of the global discussion on domestic resource mobilization for health, particularly as countries transition from donor support and work to achieve health system goals as well as other targets. Earmarking is also increasingly used as an instrument of public health policy – to tax the consumption of unhealthy products such as alcohol and tobacco, for example.

The arguments for and against earmarking are numerous, but they often remain theoretical. Despite vast country experience with this policy instrument – at least 80 countries earmark for health – little empirical evidence has been introduced into the debate. Few studies have examined the characteristics of earmarking policies and which country contexts may be conducive to the beneficial use of earmarking.

This paper discusses the theoretical foundations of earmarking, and it analyses country experience with earmarking for health and its impact on health sector budgets and the broader fiscal environment. The goal is to provide useful information to health and finance authorities, and to the international partners who support them, on the practical realities of designing, adopting and implementing earmarking policies. It is not a quantitative analysis or in-depth study of any particular form of earmarking; rather, it highlights key characteristics of this tool and important factors to consider before deciding whether to implement earmarking for health.

The findings suggest that the results of earmarking for health are highly context-specific and dependent on a country's political priorities and budget process. In some cases, earmarking has been a tool to advance and sustain a national health priority. In Ghana, Estonia and the Philippines, earmarking for health has made it possible to launch or expand a national health insurance program – and in the case of South Africa, to mobilize an effective domestic response to the HIV/AIDS epidemic.

The findings also suggest, however, that in most cases earmarking is unlikely to bring a significant and sustained increase in the priority placed on health in overall government spending. Budgets are fungible, and earmarking one revenue source is likely to result in offsets through cuts in other sources. Furthermore, earmarking can introduce rigidity into the budget process, and the inefficiencies in some cases can be severe. Earmarking has been more effective when practices come closer to standard budget processes – that is, softer earmarks with broader expenditure purposes and more flexible revenue–expenditure links.