

Public finance management within health financing

This technical brief aims to identify which areas within public financial management should be used to increase the performance of public spending for health.

Why is public financial management important for health?

Given the significance of government revenues in financing universal health coverage (UHC), appropriate public financial management (PFM) systems are important as they affect health financing in several ways:

- the level and allocation of public funding (budget formulation);
- the effectiveness of spending (budget execution); and
- the flexibility with which funds can be used (pooling, subnational PFM arrangements and purchasing).

PFM systems ultimately determine how well public health spending can be aligned to meet health coverage and service delivery objectives.

Most of the resources for UHC and the health sector in general will and should come from public budgets (1). More revenues for the health sector will not help achieve UHC goals if spending cannot be directed to priority populations, programmes and services. However, growth in public health spending

needs to be aligned with the macroeconomic and fiscal capacity of the country (2). Therefore, optimizing how public funds for health are managed and flow through the PFM system is critical for achieving UHC objectives within available resources.

PFM for health: working together

PFM systems and health financing functions must be harmonized to meet the objective of effective service delivery that can make public funds available for priority populations, programmes and services to meet UHC objectives.

Health budgeting faces uncertainty, as health needs vary across the population and from year to year. It is a challenge to match the budget with the need. Flexibility is required to allocate funds across populations and over time. However, it is difficult to have full information about the population's health needs (3).

PFM systems and processes (budget formation, budget execution, expenditure control and reporting) must therefore be sufficiently flexible to enable provider payment systems that move from paying for inputs such as buildings, medicines and salaries, which may not fully respond to the population's health needs, into paying for either specific services or

These UHC technical briefs summarize current knowledge on strengthening health systems to achieve Universal Health Coverage. They outline key technical issues and international experience relevant to health policy and practice in low- and middle-income countries in the South-East Asia Region.

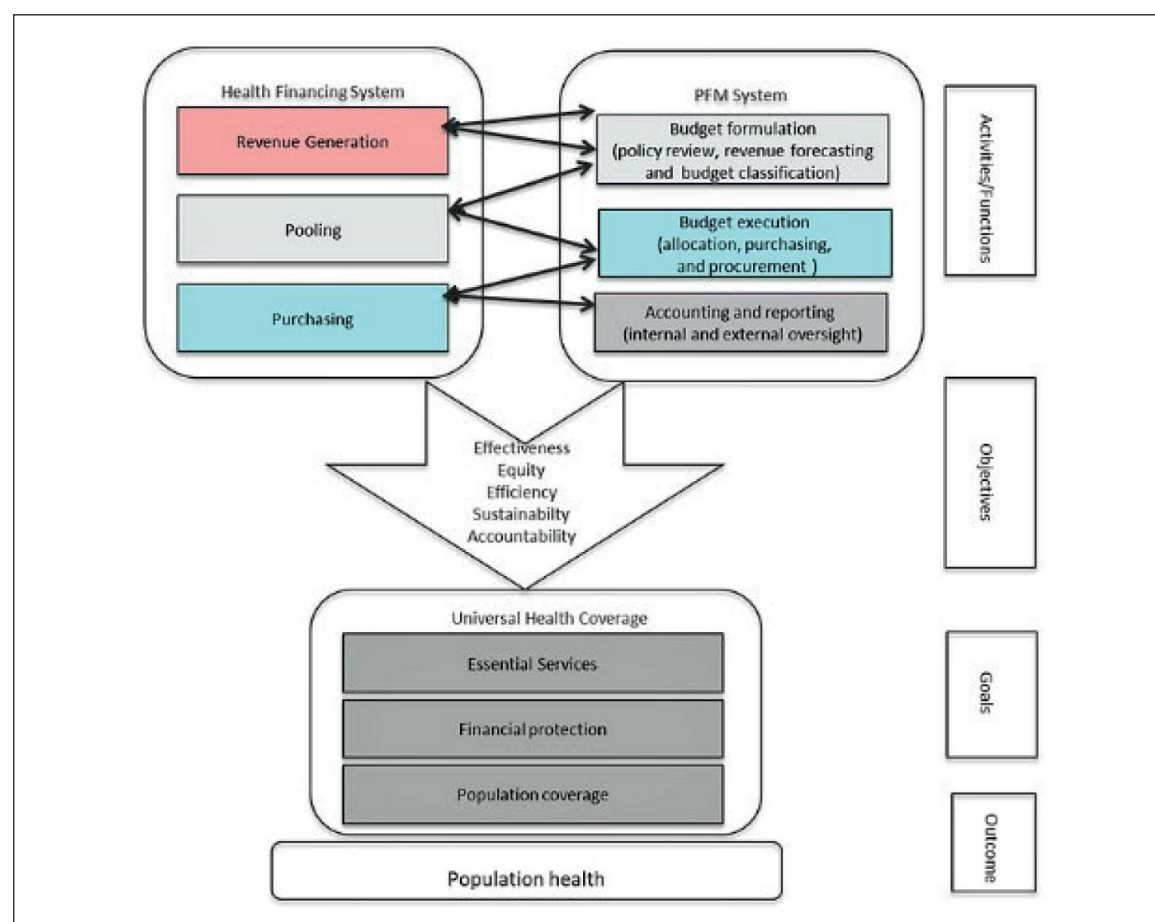
for services to specific individuals. Sufficiently flexible PFM is a precondition for strategic health purchasing.

A key step to implementation is therefore the ability to target health budget funds at priority services (such as maternal and child health) and specific populations (such as the poorest). This means that clearly defined priorities can be realized (or purchased) in practice. This can sometimes be addressed with effective dialogue between the ministries of health and finance, and technical mechanisms such as formula-based resource allocation and programme budgets (4). Some countries choose to avoid the general government PFM system by moving at least a portion of health funds off-budget through new purchasing or insurance institutions. Whatever solutions are adopted to provide more flexibility for the

health sector to form, execute and account for government funds, this will require new forms of accountability to help ensure that all funds are accounted for and used for their intended purpose – whether to procure medicines, pay salaries or purchase health services or outputs. There is clearly a need to create incentives for efficiency and quality.

Given the desired direct alignment between PFM and health financing goals, PFM rules must not be a bottleneck for effective health spending. However, in reality, even if PFM rules provide the health sector with a domestic, integrated platform to manage resources, irrespective of their source and the level of institutions that manage them, misalignments can occur at each stage of the budget cycle.

Fig. 1. Aligning public financial management and health financing (5)



Challenges in aligning budget formulation and execution

- (1) **Budget formulation.** During budget preparation and formulation, there may be misalignment between fiscal discipline and health sector priorities. There may be different perspectives for budget classification (such as line-item versus programme-based budgeting). The way sectoral budget ceilings are set may not reflect political commitments on the level or source of funds, or sector objectives, and strategic and operational plans. Improving health service performance requires budgets to be built around outputs linked to priority services and populations rather than inputs.
- (2) **Budget execution.** During budget execution, resource pooling and service purchasing may be at odds with passive line item-based disbursements. It is difficult to

match health spending to health priorities when budgets are classified and prepared based on inputs. Operational budgets are largely consumed by salaries and unspent budgets cannot be carried over to the next year. There are also delays in budget transfers and in-year budget adjustments. Moving expenditure across line items is difficult and related to provider autonomy. There is also inability to retain surpluses and make efficiency gains. Setting spending controls at the level of a health programme (such as primary health care) rather than individual spending units (such as health facilities) would provide flexibility without compromising financial controls. During accounting and reporting, budget monitoring is weak. Accountability is only related to expenditure line items being followed (not higher-level commitments to priority populations, programmes and services).

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