

## **Chapter: 3**

### **Health Care Financing – General concepts**

We must realize that the health care provision is an integrated phenomenon, which requires resources not only from the ministry of health but also from other government departments as well. That has made the resource allocation even more complex in health care provision. But for the sake of simplicity we would consider these resources in common. In general the resources needed for any production (means of production) are land, labor, and capital, it is true for the health care provision as well, but for health care we may add one more factor, and all can be listed as follows;

- Physical infrastructure, buildings, equipments etc.
- Human resources
- Financial resources, and in addition to these
- Technical resources

Although the means of production in the health care sector remain the same as for any other production process, they are considered as special not only because they are expensive and are scarce, but also because the technical resources play a major role in it. At the same time the human resources for the sector remain very expensive, because it requires a lot of special training. All that has made health care provision very expensive.

All these resources are used to generate health care facilities that are used by the people for getting treatment for diseases, alleviating pain or in general improving the health status. Building these health care facilities is one thing and maintaining these facilities is another thing, and none of this is easy or cheap. For any government, it requires a lot of commitment and a huge amount of funds to raise and maintain these facilities. This is especially true in the developing countries, where the resources are scarcer as compared to the developed

countries, but the peoples require these services even more. At the same time there is tough competition for these scarce resources as well by other development projects.

All governments want to use these resources with an optimum proportion so as to get the maximum benefit out of the health care system. In other words they want to improve the efficiency of the health care system so that maximum number of people can benefit with the available resources.

So they have to come up with a plan not only to establish these facilities but also to run these effectively and efficiently. Establishing these facilities are once in a life time commitment, so though it require a major capital investment, but it is not that impossible. But maintaining these facilities requires a long-term commitment and a continuous flow of funds. So it is more difficult to maintain a facility than to built it.

That mean, governments can not afford maintaining these health care facilities on their own for an indefinite period of time, therefore they have to come up with some sort of program, not only to establish, maintain and run the health care system but also to expand it. Different government has come up with different approaches that are generally summarized in the following few paragraph.

In general there are three (3) sources of funding for any health care system, these include;

- Public funding
- Private funding
- External funding

**Public funding** or the direct government funding is the most widespread approach to health care funding in the developing world. It includes the taxation channeled through the ministry of health, local taxation through the local government or other local authorities, and compulsory health insurance through the social security agencies.

**Private funding** includes direct payment by the individuals, payments by the private health insurers, payments by the employers on behalf of their staff, local donation and the funds generated by the providers themselves by fund raising activities.

**External funding** includes the funding by the international agencies for e.g. World Health Organization, USAIDS, EU, or non-governmental organizations, for e.g. Red Cross or Red Crescent etc. or other charitable organizations.

The financial resources limit the supply of health care, whereas the demand is unlimited. The total health care expenditure depends upon the utilization of the health care system in general, so the more an individual use it the more cost will be incurred. But every time an individual used it he also makes a payment (that may be small in amount), and that is considered as the recovery from the system and is used as a mean of refinancing the system. That is not the only way to finance the health care system, as the amount recovered is negligible as compare to the total health care expenditure. So the agencies responsible for running the health care system has to come up with a more efficient financing system. Because it is the refinancing by these payments or by other means that will run the health care system.

In short we can divide the health care financing into four (4) different methods;

- Self payment
- Tax Financing
- Private insurance financing
- Social insurance financing

**Self-payment**, though the oldest method of payment is now getting obsolete. It is payment for the services there and then. Usually the patient makes the payments on his own that may or may not be reimbursed.

**Tax Financing:** this is one of the most common methods of financing the health care services especially in developing countries. Government revenues are obtained from individuals, households, and the business in a country through various forms of taxations. Such as taxes on income, business, production (value added taxes), lands, buildings, vehicles and other personal properties, fees and licences imposed on professionals and business, import and export duties and excise taxes on the entertainments and the luxury goods. These revenues are then added together, and redistributed among the various government departments. Therefore the exact source of funding for health care schemes is not identifiable.

However in some cases the government dedicate the proceeds from a particular tax instrument to the health sector. That means that can provide the health care sector with a relatively reliable source of income. For e.g. in some Latin American countries government has decided to allocate the proceeds from the taxes on tobacco, alcohols and gambling to the health care sector. In other countries lotteries have been organized to benefit the social welfare programs (Economic support for national health for all strategies, WHO)

**Private Insurance,** is the private insurance by the person himself or by his employer, so that he can have coverage for the health care services provided by the different private health care facilities. The main disadvantage of this private insurance is that is it always risk-rated – that means a person with a major or chronic (long-standing illness) is either denied by the insurer or insured with a very high premium. That in fact increases the cost of the health on his part.

Another arrangement that is closely related to the private health care insurance is getting you registered with the managed care organizations.

**Social insurance,** it in essence is similar to the private health care insurance, but differ from it in two major aspects. One, it is compulsory for every member of the society, and secondly it is not runs for profit. So it is not risk rated, therefore every body is insured and no one is denied of any health care services.

The method selected by the government for financing the health care system depends upon the resources available, and the policy government has drawn according to his health vision for the whole nation. Whatever the method may be but it should satisfy a few general criteria: that includes,

- Equity
- Adequacy
- Reliability
- Impact on supply
- Impact on demand
- Administrative feasibility

**Equity** is regarded as one of the most basic requirement for any health care financing system. Equity will determine the equal access of the health care facilities to all the population, irrespective of their geographical, financial or social status.

**Adequacy** will determine, whether adequate resources are used for financing the health care system. At the same time it will also make sure that these resources are enough to ensure the equity in the system.

**Reliability** will determine how much of the objective are met by the proposed health care financing system. It will also show if the public expectation and demands are fulfilled by the health care financing system.

**Impact on supply**, a good health care financing system makes sure that the supply is matched with the required need and demand by the population. And that it can easily accommodate any unexpected fluctuation in the demand by subsequently adjusting the supply.

**Impact on demand**, a good health care financing system is the one that will not encourage the unnecessary usage of the health care facilities. At the same time it will make sure that the providers are not abusing the services as well.

**Administrative feasibility** plays an important role in the success of any system, a system may very good but can fail only because it is very difficult to

implement. So while designing any system it should be born in mind whether it can be implemented easily or not. Implementation success will depends upon the existing infrastructure available. That means either the system is designed according to the existing infrastructure available or separate resources are allocated to built that infrastructure needed.

The above mentioned five (5) criteria will be the criteria we will be using to analyze the different types of health care financing models in this paper.