Earmarking Revenues for the NHIS in Ghana: Practical Experience, Results, and Policy Implications

Introduction

One way countries look to increase fiscal space and resource mobilization for the health sector is through earmarked revenues. These resources can be 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 bring the potential benefits of earmarking (such as increased revenues for health), while minimizing the potential negative consequences (such as reducing 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 statutory fund), as well as the “health insurance levy,” through which 2.5 percentage points of the value-added tax (VAT) is earmarked for the NHIS. Other sources of funding include an earmarked 2.5 percentage points 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 (Ministry of Health and NHIA) and finance agencies (Ministry of Finance, Ghana Revenue Authority, SSNIT and the Controller and Account General Department). The purpose was to better understand:

- Whether the earmarking has been effective in securing adequate, stable, and flexible 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.

Key Messages

- The earmarks were vital for operationalizing a national priority, the NHIS, which is highly popular and has widespread political support.
- Although revenue from the earmarks has been robust, rapidly growing NHIS expenditures are threatening sustainability.
- The earmarks are not considered to have introduced rigidity into the overall budget because they fund a high national priority.
- The earmarks also have not introduced rigidity because the revenue has been offset by cuts in the MOH budget, with the NHIS absorbing more financing responsibility in the health sector.
- Thus, over time the earmarks have effectively shifted priorities within the government health spending envelope, but not between health and other sectors.
- The budget offsets may, however, create an opportunity to reduce fragmentation and improve pooling, as well as streamline provider incentives. But transparency is needed to explicitly define which services and cost items the NHIS covers.
- The earmarks for the NHIS are likely here to stay. The most important next step is to more effectively manage expenditures with purchasing and provider payment strategies to ensure the sustainability of the NHIS.

Annex 5
POLICY NOTE ON EARMARKING IN GHANA*
Adoption of the Earmarks

Before Act 650 was passed, the question of how to fund the NHIS came to the forefront. Various suggestions for mobilizing resources were raised, and the Ministry of Finance and the Economic Management Team focused on the VAT. Although there were many voices inside government in favor of raising the VAT, previous governments had failed due to vehement population opposition. Tying the increase in the tax to fund the highly popular NHIS created a political “win-win.” Thus, there was mutual interest on both the health and finance sides, which made it possible to pass the earmark.

“Previous governments had proposed an increment of the VAT...but [this] was opposed vehemently by the opposition parties...The new government decided that one way to both meet IMF obligations and achieve a political goal was to use the money for a very popular measure like the NHIS... This was a politically safer way to increase the VAT and it turned out that no one opposed it.”

~Respondent-Stakeholder

The earmarking of SSNIT contributions was more contentious and required a compromise.

As a result of [claims that the pension fund was not sustainable and could not cover the earmark], the government made a fatal commitment to guarantee the pension fund in its entirety against any shortfall.

~Respondent—Health

After wide stakeholder consultations across the country, the policy framework for the NHIS and its financing was developed and approved by the cabinet in 2002. The Attorney General Department in consultation with the technical committee and other stakeholders formulated the legislation, which was passed by Parliament in 2003. The collection of earmarked funds began before the NHIS became operational to allow a reserve fund to accumulate. This is also perceived, however, as creating a false sense of revenue-generating potential of the reserve fund, which brought in an average of 10 percent of the total revenue for the NHIS until about 2009.

Implementation of the Earmarks

The revenue from the earmarks is entirely protected for the health sector, with 90 percent going to the NHIS and the other 10 percent to the MOH for special programs (most recently to purchase vaccines). The flow of earmarked funds was designed to ring-fence them entirely from the point of collection to the final recipient, the NHIA (Figure 1). This is considered by stakeholders to be critical in the implementation of the entire NHIS.

Five main agencies are involved:

- **Ghana Revenue Authority (GRA):** collects all government revenues, including the NHIL;
- **SSNIT:** collects the 2.5% of member contributions;
- **MOF:** allocates revenues collected by GRA to government agencies and expenditure items
- **NHIA:** implements the NHIS
- **Controller and Account General Department (CAGD):** provides overall oversight, and reports on the use of funds to Parliament.

Figure 1. Earmarked Funds Flow

Each year the NHIA makes a funding request based on an allocation formula, which takes into account projections of revenue from the earmarks, and the request is approved by parliament.
“GRA collections are deposited at the commercial banks who then transfer them to the Bank of Ghana (consolidated account) into the GRA revenue account. GRA then advises the NHIA about the amount available for the NHIF. The NHIA then writes to the Controller and Accountant General Department (CAGD) to request the amount. The CAGD confirms the requested amount from the Bank before authorizing transfer to the NHIA”.

~Respondent – Finance

Although the situation has greatly improved recently, there can be delays of up to two months in the transfer process. Sometimes the NHIA does not receive the full amount of expected funds because MOF revenue projections were not met, and at other times the NHIA receives funds in excess of the request.

Some years back, I would say transfers sometimes were not made on time and also not in full. However, for the past two years, [transfers] have been on time and in full and the Authority can testify to that. In 2015 for instance, the MOF front-loaded funds to the NHIA to be able to undertake its expenditure and pay for the some of the deficits in claims.

~Respondent--Finance

Results for Funding the Health Sector

The earmarked revenues have provided a stable and growing resource base for the NHIS. Revenues have increased steadily in nominal terms, reaching over 1 billion Ghc in 2014, and they now make up more than 90 percent of total funding of the NHIS. In addition to the earmarked revenue, the NHIS is funded by a small amount of premium payments by the non-exempt population and investment income from the reserve fund (Figure 2).

Challenges have emerged, however, as expenditure growth to pay claims for health services in the NHIS benefits package has outpaced the revenue growth, and the NHIS is now facing serious sustainability challenges. In addition, there has been off-setting in the overall health sector budget, with cuts in the MOH budget and financing responsibility for the health sector increasingly being shifted to the NHIS.

Revenue-Expenditure Linkage

As nearly all of the funding for the NHIS comes from the VAT and SSNIT earmarks, and 90 percent of the earmarked revenue is allocated to the NHIS, the earmark revenue almost entirely drove expenditure, with a small amount of surplus added to the reserve fund. That is until 2009 when the expenditures of the NHIS began to exceed its revenue (Figure 3).

The gap was initially closed by the reserve fund, but this has been nearly depleted. The deficits have meant delays in payments to providers, and at some points the NHIA has had to resort to high-interest loans from private financial institutions. In 2015 the government stepped in to bail out the Scheme from claim payment arrears.

Figure 2. Revenue Sources for the NHIS

Figure 3. NHIS Revenue vs. Expenditure
Funding gaps are filled by ad hoc decisions of the government of Ghana. Currently external donor support has been introduced into the funding mix.

“Respondent—Finance

Some of the expenditure-revenue misalignment has been attributed to weak expenditure management controls and some inefficiencies in the operations of the Scheme.

Gaps in revenue are not only driven by lack of funds from the earmark. Earmark revenue has been steadily increasing since it has been put in place - but expenditure has been exceeding available revenue. Budgeting is on an accrual basis- for instance, income from 2010 was used to pay for expenses in 2009 - so you don’t see the impact of any delays, or where delays are coming from.

“Respondent — Health

The main source of unchecked expenditure growth, however, is the outflow created by open-ended provider payment systems that allow providers to bill, and expect to be paid, for an almost unlimited number of services and medicines. The NHIA has taken steps to improve payment systems and get more value for money in the Scheme. The G-DRG payment system, which bundles payment for each hospital admission by diagnostic category, was an important step away from fee-for-service. Capitation payment for primary care, which pays a fixed amount per enrolled person per month, is another step to gain control over claims while promoting efficiency and more responsive care for NHIS members. These steps have been important, but stakeholders agree they must now go further to bring claims growth under control.

Offsetting in the Health Sector Budget

When the earmarks were first introduced in 2003, the share of total government spending allocated to health increased substantially (from 11 to 14 percent). In recent years, however, the share has returned to pre-earmark levels, or even lower. The offsetting of the budget was universally noted by stakeholders on the health and finance sides alike.

Budget allocation to the health sector as a whole has been dwindling in terms of goods and services. The reduction is about GHC 29 million from the 2015 allocation. Earmarked funds have increased, but the discretionary budget for the health sector was cut and continues to be cut each year.

“Respondent—Finance

Some respondents from the Ministry of Finance noted that the reductions in the health budget are largely a result of constraints in the overall resource envelope and not because of the earmarks. And in fact, budget reductions for the health sector may have been more severe in the absence of the earmark during the recent economic downturn.

Nonetheless, there has been a shift in the composition of the health sector budget. After the NHIS was introduced, the discretionary health sector budget was intended to continue to cover public sector salaries, investment, and some cost items for service delivery in public facilities. The remaining budget is now almost entirely consumed by salaries, with the NHIS funds covering more service delivery costs by default (Figure 4).

Figure 4. Change in MOH Budget Allocation Since the Earmark was Introduced

The trend in the health sector budget allocations may be partially explained by the origins of the earmark. The MOF intended the increase in the VAT and accompanying earmark as an overall revenue enhancement measure, not to increase revenue specifically for the health sector. Thus, over time the earmark has effectively shifted priorities within the government health spending envelope, but not between health and other sectors.

Fiscal Consequences

One of the main arguments against earmarking in general is that it limits the flexibility in overall government budgeting, and other higher priority
spending areas may suffer. Some respondents believe that the NHIS earmarks are crowding out other expenditures.

The MOF has had some concerns primarily on the principle of earmarking funds to programs. In the 2016 budget alone, the NHIF is getting close to GHC 1.5 billion, whereas the total amount due for non-wage recurrent expenditure for all MMDAs in the entire country is about GHC 2.5 billion. With the huge overruns in terms of compensation payment and debt servicing, the fiscal space left for the government to run is very limited. As such earmarking ties the hands of government.

~Respondent—Finance

On the other hand, several respondents from both the health and finance sides noted that these are not effective rigidities in that the NHIS is a top priority and would have to be funded in any case.

It would not have been possible to have money for the NHIS without the earmark, so it isn’t really adding rigidity... if it [the NHIS] is a priority, there is no difference between earmarking and making a general budget line available for it. If it is a priority the government has to make the money available. The real issue is whether it is a priority.

~Respondent—Finance

The earmarking came with rigidities but the ministry is happy to sacrifice for those rigidities since health is a priority sector.

~Respondent—Finance

The view was widely expressed that earmarking has been vital for funding this national priority given the other rigidities in the budget and the small share that remains discretionary.

For now, earmarking has been effective in terms of finances in the context of the challenges the country faces with our huge compensation, debt servicing and budget overruns. As in terms of the policy I think there needs to be a review in some expenditure lines of the NHIA.

~Respondent—Finance

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~Respondent—Health

Conclusions and Policy Implications

There is clear consensus across stakeholders from both health and finance agencies in Ghana that the NHIS is one of the country’s most important social policies and that it would not have been possible without the earmarking of the VAT and SSNIT contributions. The objectives for which the earmarks were adopted are considered to have been achieved. The NHIS was successfully launched and continues to bring significant social benefit more than 10 years after it was introduced.

Policy wise, I think it’s one of the best policies we can ever have because we have the NHIS and the revenue base is tax based. So then each individual in one way or the other contributes to the fund.

~Respondent—Health

None of the respondents recommended taking away the earmark, although one suggested that in other contexts earmarking for health may be better as a short-term way to operationalize priorities than a long-term financing solution.

For other countries, [earmarking] should not be long term but a temporary solution. Situations change and earmarked funds cannot change that easily. Eventually it should be the national budget that finances national priorities. Earmarking can lead to unrealistic expectations.

~Respondent—Health

The main question in Ghana at the moment is how to ensure sustainability of the NHIS going forward, and whether that can be done within the funding base the earmarks provide.

Several stakeholders pointed to the need to get claims growth in check before considering additional funding for the Scheme. There is tremendous opportunity for tighter use of earmarked funds in the NHIS by better leveraging provider payment systems and other strategic purchasing strategies. It is critical at this stage to put safeguards in place to ensure that claims liabilities do not regularly exceed available revenue, and that expenditures are
directed to high-quality services delivered in an efficient and responsive way.

The offsetting of the MOH budget is one of the underlying reasons that NHIS claims have increased dramatically. As their budgets have been cut, providers need to earn more money to cover costs previously paid through the budget. This can be seen as a challenge or an opportunity. Paying a greater share of health service costs through the NHIS creates the opportunity to reduce fragmentation of health funds and create one streamlined set of incentives for providers. The funds that flow to providers through the NHIS can be used flexibly, both by the NHIA as a purchaser and by the providers they pay. Unlike the more rigid line item budgets, this creates opportunities to introduce incentives for efficiency and quality in health service delivery. But it needs to be made explicit which services and cost items NHIS payments to providers are meant to cover, and the opportunity to leverage purchasing power must be taken.

The earmarks for the NHIS are likely here to stay. They are universally supported by stakeholders from both health and finance agencies in Ghana. They are widely recognized as being essential for operationalizing a national priority and ensuring that it continues to serve the population, expand and improve. The earmark is also credited with protecting funding for the NHIS during the recent economic downturn, and as such helping maintain allocative efficiency in the budget—protecting an allocation to a high-priority policy.

The most important next step is to ensure the long-term sustainability of the NHIS by more effectively managing expenditures and better leveraging purchasing and provider payment strategies.

The government together with the population of Ghana will have to decide whether the overall priority given to health in the government budget reflects political commitment to the NHIS, its growing financial responsibility in the health sector, and the resources required to achieve health sector goals.

What Has Made Earmarking for the NHIS a Success?

Stakeholders in Ghana from both the health and finance sides view the earmarking to fund the NHIS as a success. What factors have been most important for this success?

- Joint support from the Ministry of Health and Ministry of Finance—opportunity for a political “win-win.”
- Funding linked to a highly popular social program with wide political support.
- Careful design of funds flow that ring-fences the earmarked revenue from the point of collection to the final receiving agency.
- Clear accountability mechanisms governing the funds flow.  

But challenges remain with expenditure management and ensuring earmarked funds bring value for money in the NHIS.

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