

Issue Brief Series on:
SUSTAINABLE HEALTH FINANCING IN BHUTAN



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ISSUE BRIEF 2

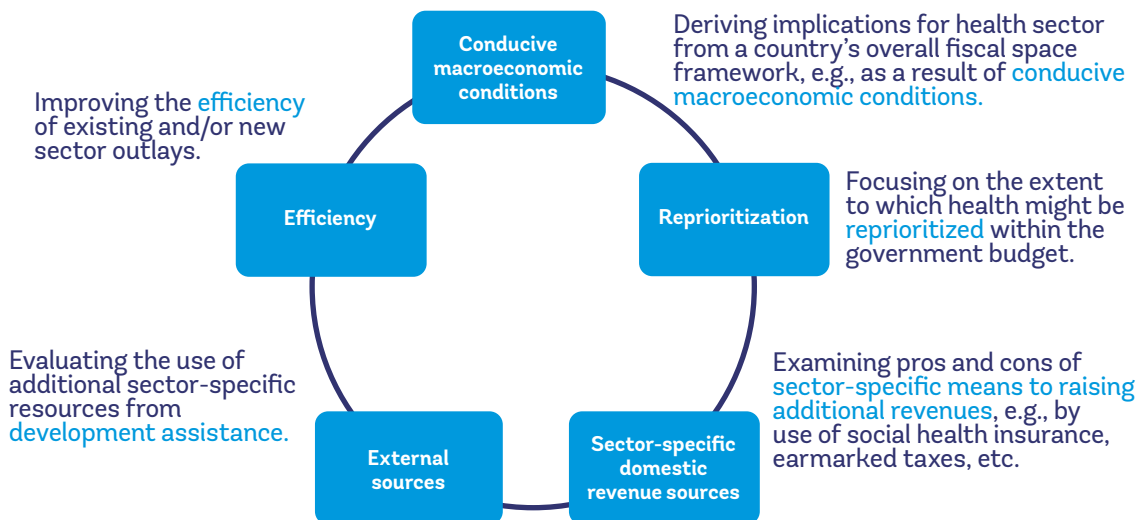
Creating Fiscal Space for Health Amid an Economic Downturn

The aftereffects of the coronavirus pandemic – coupled with a worsening global economic outlook – mean that the sustainability of Bhutan’s public spending is now an area of particular concern. Accordingly, this brief identifies policy levers available to maintain necessary public investments in health and human capital. Equally, it also reveals key financing constraints policymakers can expect in the short- (and medium-) term.

ESTABLISHING THE DRIVERS OF FISCAL SPACE GROWTH:

The introductory brief in this series demonstrated that – due to falling public revenues, and rising debt burden – maintaining adequate fiscal space for health is an immediate challenge facing the health sector. Therefore, what Bhutan’s policy leaders need now is a quick assessment of the options available to counteract the downward pressures that are likely to be placed on public health expenditures in the short- to medium term. Accordingly, this brief lays out available options and constraints to increasing or even sustaining Bhutan’s public expenditures on health in the near and medium terms.

The DRUM+ Framework to Evaluate Fiscal Space Options



PILLAR 1. Conducive Macroeconomic Conditions:

MACRO CONDITIONS NO LONGER FAVORABLE FOR PASSIVE HEALTH SPENDING GROWTH

Strong economic growth can have transformative impacts on available fiscal space for health as it creates favorable conditions that both organically increase available resources and provide a foundation that allows for expansionary fiscal policy. Bhutan’s own development history demonstrates the link between macro growth and health expenditures. Driven by strong hydropower and tourism sectors¹ the size of the national economy quadrupled between 2000 and 2020,² and in the same period, per capita current health expenditures increased nearly 3.75 times (Figure 1). This increase in realized fiscal space for health, measured in per capita public expenditures on health, is attributable primarily to macro-level economic growth (Figure 2). The case of neighboring India provides further evidence of how macro growth can directly unlock domestic fiscal space for health: although health’s share in the public budget did not meaningfully change in India between 1995 and 2010, health expenditures nearly tripled because of average per capita GDP growth of roughly 6%.

¹ Asian Development Bank. Health Sector Development Program: Health Financing Assessment. ² World Bank national accounts data, and OECD National Accounts data files.

Figure 1. Bhutan's Per Capita Public Spending, 2000-2020³

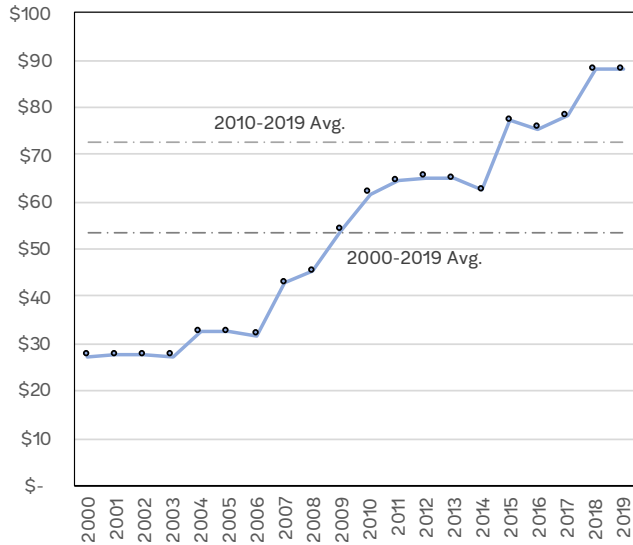
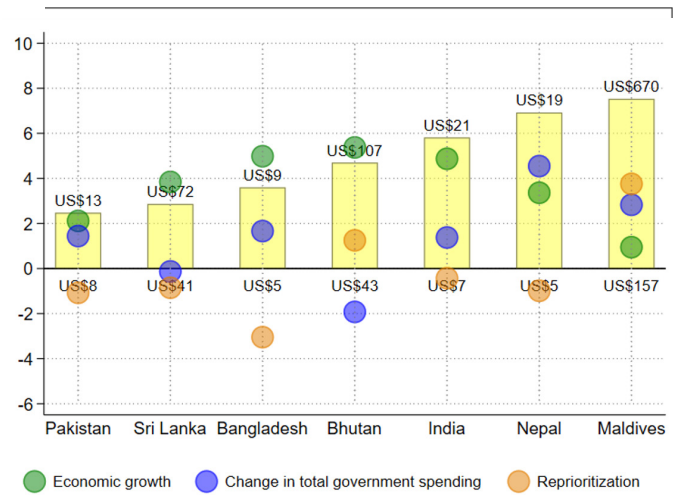
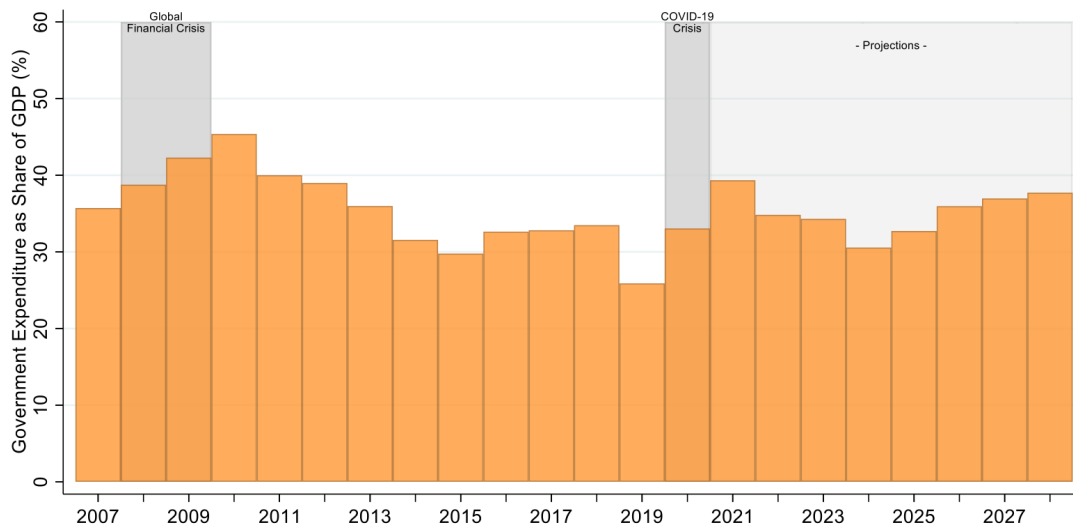


Figure 2. Bhutan's Historical Drivers of Fiscal Space for Health between (2000-2020 Average)⁴



The conducive macro environment which enabled continuous per capita public health expenditure growth since 2000 has changed. Sustaining Bhutan's public health expenditures is a challenge because (1) GDP per capita has declined in the last two years and because (2) government expenditures are declining at the same time. Like the region as a whole, Bhutan suffered sharp declines in per capita GDP across 2020 and 2021 – falling from Nu.95,000 pre-pandemic to Nu.87,798 after. Although positive growth is likely to return in 2023, per capita GDP is not expected to reach 2019 levels until 2024/25.⁵ Additionally, total government expenditures, which were at a high in 2022 (Nu.73 billion) due to counter-cyclical.⁶ spending from the RGoB, are now headed into a contractionary phase (Figure 3) due, in part, to high public debt.⁷ Total government expenditures as a share of GDP are likely to fall and remain at a historically low rate of 28% starting from 2023 until at least 2027. The combined impact on available fiscal space for health post-COVID-19 is as follows: Bhutan is starting from a lower base of per capita income and a decreasing share of that income is available for health.

Figure 3. General Government Expenditures as a Share of GDP, 2000-2028⁸



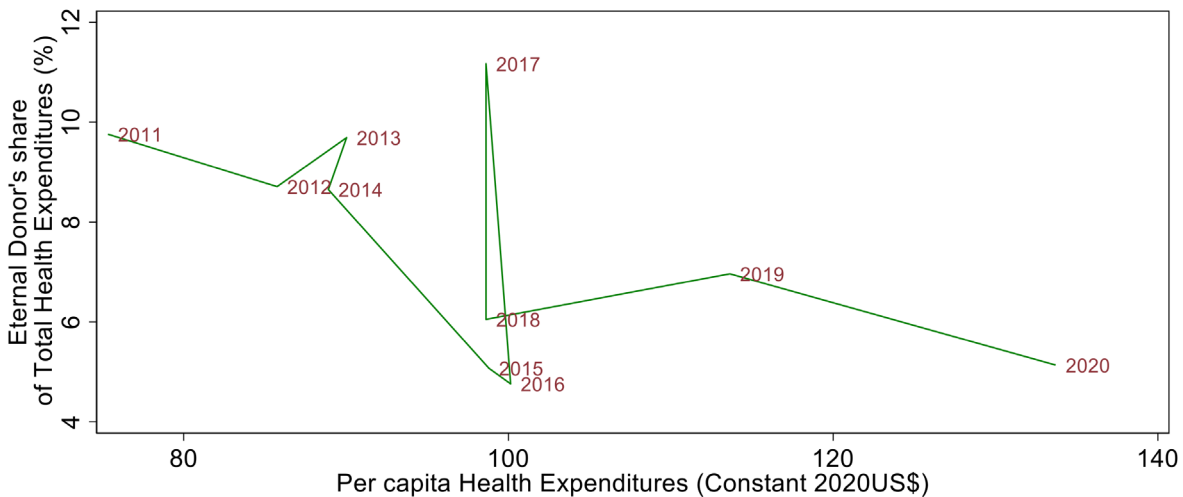
³ Source: World Health Organization Global Health Expenditure database (apps.who.int/nha/database). The data was retrieved on May 30, 2023. ⁴ Source: Author's calculations using WHO GHED 2023 Edition. ⁵ Ajay Tandon et al. 2023. "Old Scars New Wounds: Public Expenditures on Health in Times of Covid-19 in the Asia-Pacific Region." HNP Discussion Paper. Washington DC: World Bank. ⁶ Counter-cyclical policies are those policies that intend to balance the effects of the economic cycle. For example, fiscal policy measures that stimulate demand and spur economic activity during an economic downturn. ⁷ Ajay Tandon et al. 2023. "Old Scars New Wounds." ⁸ Source: IMF WEO April 2023 Edition.

PILLAR 2. Donor Assistance for Health (DAH):

PROSPECTS FOR SUSTAINING EXPENDITURES THROUGH EXTERNAL REVENUES ARE ALSO LOW

Increasing the level of donor (external) assistance for health is another means through which governments can increase fiscal space available for health. Although it may be possible to secure external assistance for health, Bhutan already relies on external funds to finance health at a higher rate than what might be expected for a country at its income level (Figure 6). Most other lower middle-income countries with a GDP per capita of greater than US\$3,000 have external financing ratios closer to 1%, whereas Bhutan's is 6.1%. As such, increasing the external financing share of total health expenditures may not be sustainable or even viable in the long term.

Figure 6. Donor Assistance for Health and Total Health Expenditures Over Time (2011-2022)⁹



PILLAR 3. Reprioritization for Health:

REPRIORITIZATION CAN BE IMPACTFUL, BUT DIFFICULT TO ACHIEVE

Reprioritization refers to health's share of domestic government expenditures each year. In recent years, the priority given to health in Bhutan has ranged from a low of 6% in 2008 to above 10.4% in 2019/20 (Figure 4). Going forward the choice of the prioritization across the next five years can have a significant impact on the level of resources available for health. Modeling of two simplified health financing scenarios, each based on a different assumed health prioritization rate from 2022-2027, suggests that the difference could be as high as US\$60 per capita depending on the health reprioritization rate that takes hold in Bhutan in the coming years (Figure 5). In the high scenario (blue dashed line in Figure 5), where health's share of general government expenditures is maintained at its 2020 level (~10%), Bhutan can expect per capita health expenditures to remain within US\$135-145 between 2023 and 2026. However, if the priority given to health in the budget reverses back to the 2010-2019 average, approximately 7.6%, then per capita health expenditures may not return to 2020 levels until 2027 (orange dashed line in Figure 5).

In FY2023/24 and beyond, as the health emergency recedes, fiscal constraints become tighter and deprioritized demands from other social sectors come back to the fore, it may be difficult to make a strong case for raising, or even maintaining, historically high rates of prioritization for health in the public budget. The key reason for this is that Bhutan's interest payments on accumulated debts is set to rise from 3% of total government expenditures in 2021 to nearly 11% in 2027.¹⁰ As a nation's debt servicing burden increases, demands from non-health sectors become more competitive in a relative sense. Furthermore, as can be seen in Figure 4, health's share of actual public expenditures was at a historically high rate of 10.4% in 2019 and 2020. Due to the ongoing coronavirus health emergency, high levels of budgetary prioritization for health have been easier to maintain in FY2021/22 and in FY2022/23: the budgetary allocation to the health was further increased to 12.9% of the total government allocation.¹¹

⁹Source: WHO GHED 2023 Edition. ¹⁰ Author's analysis using IMF World Economic Outlook databases (October 2022 edition). ¹¹ Ministry of Finance, RGoB. 2022. Budget-Report-for-FY-2022-23. <https://www.mof.gov.bt/wp-content/uploads/2022/06/Budget-Report-for-FY-2022-23-in-English.pdf>

Figure 4. Health's Share of Public Expenditures

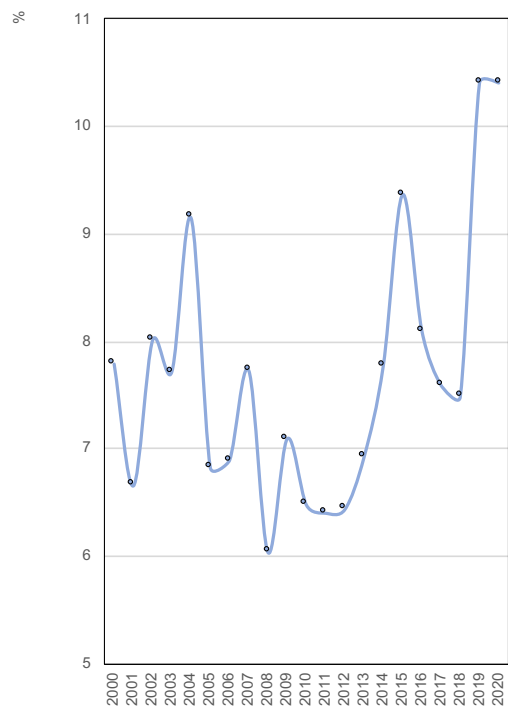
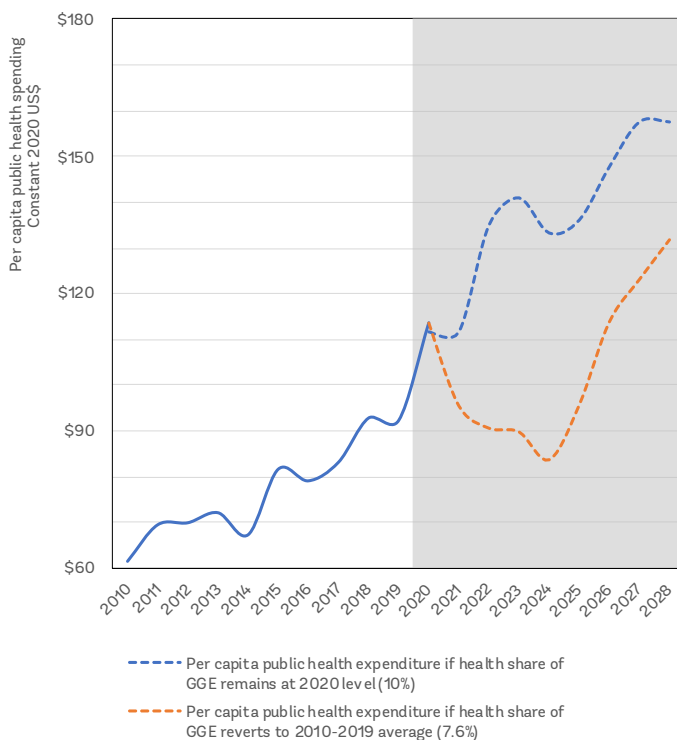


Figure 5. Potential Fiscal Space Pathways in Bhutan (Projected till 2028)



PILLAR 4. Generating Health Sector Specific Resources:

BHUTAN MAY HAVE ROOM FOR INCREMENTAL “PRO-HEALTH” CONSUMPTION TAXES

Health-specific revenues are sourced generally from the form of either new earmarked taxes or from the collection of health contributions.¹² Given that Bhutan’s health sector relies almost exclusively on taxes to fund health – tax-financed government expenditures amounted to 78% of total current health expenditures in 2020, while voluntary or compulsory healthcare payment contributions were collectively just 2% – the revenue potential from contributions is low in the near term. Relatedly, a key financial protection indicator, the private out-of-pocket share of health expenditures, has trended negatively in the last few years, from 13 to 18%. In this context, introducing policies that increase the burden on private households should not be preferred. A secondary option is to raise additional revenues through earmarking for health – particularly by using “pro-health” consumption taxes.

Although tobacco products are banned, Bhutan may still have room to mobilize additional domestic revenues through consumption taxes on alcohol, sugar, and sugary sweetened beverages. A comparison of consumer prices across the South Asia region (SAR) and globally shows that Bhutanese pay less for alcoholic beverages relative to India, Nepal, Sri Lanka, and the world on average (Table 1). Specifically, the average price index for alcohol is 94 in Bhutan, which means that alcoholic products are nearly 40% cheaper than in India and more than half as cheap as in Sri Lanka. Even a tax that raises the average price of alcohol up by 6% would only bring Bhutan in line with the global average. This provides an initial economic justification for imposing new taxes on health impacting consumables as a mechanism through which to improve fiscal imbalances and secure fiscal space for health.

¹² A Tandon and A Belay 2015. ¹³ Includes sugar, jam, honey, chocolate and confectionery. Source: World Bank International Comparison Program.

Table 1. Average Price Index for Alcohol and Sugar Products

Country	Alcoholic Beverages	Non-Alcoholic Beverages	High-Sugar Products ¹³
Bhutan	94.28	82.49	81.14
Pakistan	..	75.95	63.54
India	139.03	74.60	65.54
Bangladesh	..	77.48	84.33
Nepal	167.11	80.39	74.99
Sri Lanka	204.91	87.03	53.17
World	100.00	100.00	100.00

However, international evidence suggests that not only are the revenue implications of “pro-health” taxes often limited, securing these new revenues as earmarks for health can also be difficult and economically inefficient. Importantly, health taxes are considered “unlikely to bring a sustained net increase in revenue” due to the consumption offsetting effects caused by price increases.¹⁴ Accordingly, the global literature on health taxes now emphasizes the health taxes as a public health tool best suited to curb unhealthy consumption rather than as an instrument of fiscal policy.¹⁵ In short, pro-health taxes are an efficiency improving measure.

PILLAR 5. Efficiency in Pooling and Using Resources:

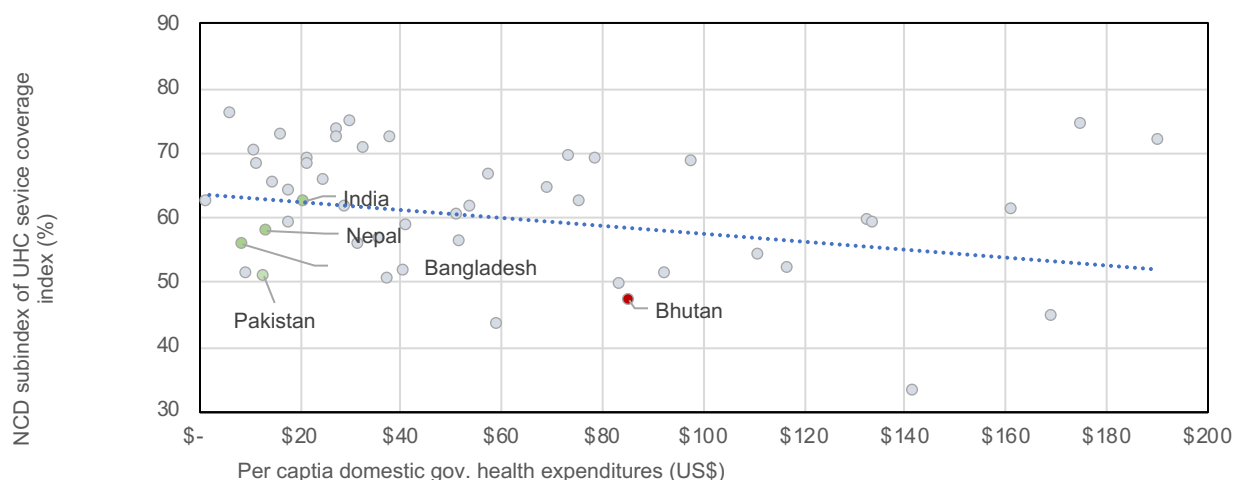
GIVEN LOW REVENUE PROSPECTS, IMPROVING EFFICIENCY MUST BECOME A FOCUS

Improving the efficiency of health expenditures, by which is meant getting more health output for the same level of input, can act as a final source of fiscal space.¹⁶ This is because efficiency gains help free up previously committed resources, so that they can be re-invested into new health sector priorities, thereby creating fiscal space without needing to mobilize any new domestic revenues. This can be done either through reallocating resources from lower yield services to higher yield services, examples include spending more on primary care services to prevent acute exacerbations of noncommunicable disease (NCD) such as Type-1 diabetes and thus averting more disability adjusted life years (DALYs) than an inpatient hospital service that might be required once a disease has already progressed. Alternatively, efficiencies can also be gained by ensuring that the allocated resources are utilized optimally, this is known as technical efficiency and examples include hospital work-flow improvements that allow doctors and nurses to operate more effectively at “top-of-license” and see larger patient panels. In this way, there are always multiple complementary avenues through which to realize efficiencies in a health system.

Bhutan also has a significant opportunity to address both allocative and technical inefficiencies as they relate to NCDs. As noted in the introductory brief of this series, the rise in NCD’s share of total disease burden has been particularly rapid in Bhutan and is expected to continue growing until at least 2050. NCDs have increased from less than 35% of the disease burden in 2000 to over 62% by 2019, and the key drivers are heart disease, diabetes, stroke, and chronic obstructive pulmonary disorder (COPD). And yet, despite the rapidly growing NCD share, Bhutan’s health financing indicators have not yet begun to adequately reflect the new reality of disease in the country. Per the most recent national health accounts, in FY2019/20 Bhutan spent nearly 55% of its total health expenditures on curative services that relate primarily to communicable diseases. The share spent on curative services was up by over 1.5% as compared to FY2018/19. Additionally, not only is Bhutan allocating an inefficient proportion of its resources towards NCDs, but existing expenditures are being utilized in a technically inefficient manner. This inefficiency can be seen by comparing NCD-related outcomes across SAR: although Bhutan spends US\$116 per capita on health, nearly twice as much as India, Nepal, Bangladesh, and Pakistan, it scores worse on the NCD tracer indicators of the UHC essential service coverage index than each of these countries. Bhutan’s NCD service coverage score is 47% while the average for SAR is nearly 10 percentage points higher, at 56%.¹⁷

¹⁴ Ozer et al. 2020. <https://openknowledge.worldbank.org/bitstream/handle/10986/34947/Health-Earmarks-and-Health-Taxes-What-Do-We-Know.pdf?sequence=1>. ¹⁵ See WHO’s “Health Taxes: Policy and Practice,” 2022. ¹⁶ A Tandon and A Belay 2015. p19. ¹⁷ Estimates taken from WHO Global Health Observatory databases (2022).

Figure 7. Public Spending on Health versus NCD Essential Service Coverage Index Performance¹⁸



Finally, beyond allocative and technical efficiency, strategic purchasing represents another important policy mechanism through which to achieve greater health for money. Conceptually strategic purchasing refers to the deliberate directing of pooled health funds towards “priority populations, interventions, and services, and actively creating incentives so funds are used by service providers equitably” and efficiently.¹⁹ Together with financial risk pooling, strategic purchasing represents the “Plus” in the DRUM+ policy framework. However, in the case of Bhutan, the RGoB’s purchasing of “basic public health services” is currently not defined in an explicit package of essential health services that are guaranteed to citizens. Furthermore, health budgets “at all levels of government are done by line-item and are based on historic trends rather than on need.”²⁰

To address growing issues of health financing sustainability, it may become necessary for the RGoB to more clearly define what it means to provide “free access to basic public health services” under an explicit health benefits package. Without an explicitly defined package, it is difficult for the RGoB, the largest purchaser of health services (78% of all current health expenditures in 2020), to intentionally and efficiently direct pooled resources towards priority areas. This is particularly important in the context of Bhutan’s ongoing disease burden transition, where service delivery needs to be re-oriented to meet growing NCD and mental health needs. Similarly, without explicitly defined benefits packages, pursuing strategic purchasing reforms such as capitated primary health care payments and incentive payments for quality improvement and value-based care are harder to pursue. Implementing a defined benefits package will require introducing new criteria, methods, and data to inform the prioritization process, as well as a national policy dialogue on the issue. Accordingly, there remains a significant opportunity for the RGoB to explore strategic purchasing reforms to increase available fiscal space in the medium to long term.

Table 2. Summary: Prospects for Fiscal Space

DRUM PILLAR	BHUTAN
Macro-economic prospects	Limited: Bhutan is starting from lower base of per capita GDP after COVID – falling from NU.95,000 in 2019 to NU.87,798 in 2021 – and total government expenditures as a share of GDP are likely to fall and remain at low until at least 2027. Macro conditions will not contribute to fiscal space for health and may shrink the level of available resources.
Donor assistance for health	Limited: Bhutan relies on external funds to finance health at a higher rate than what might be expected for a country at its income level, approximately 7% of current health expenditures. As such, increasing the external financing share of total health expenditures may not be sustainable or even viable in the long term.

¹⁸ Source: Authors’ analysis using WHO GHED 2023 Edition. Latest year available for most countries was 2020. ¹⁹ A Munyuan I Sieleunou, O Sory & C Cashin. 2022. “Why Is Strategic Purchasing Critical for Universal Health Coverage in Sub-Saharan Africa?” *Health Systems & Reform* Vol 8, 2022. ²⁰ World Health Organization. 2021. Bhutan: Cross-Programmatic Efficiency Analysis. *Health Financing Case Study No 24*

Health sector priority

Low/Moderate: Reprioritization can significantly grow fiscal space, contributing up to US\$60 per capita between 2022-27 if health's share is maintained at 10.4%. However, as Bhutan's macro conditions tighten and demands from non-health sectors that were de-prioritized during COVID get louder, it may be difficult to convince MoF to raise, or even maintain, health's high priority in the budget.

Sector-specific revenues

Moderate: Although tobacco products are banned, Bhutan shows room to mobilize domestic revenues through consumption taxes on alcohol, sugar, and sugary sweetened beverages. For example, alcoholic products are nearly 40% cheaper in Bhutan than in India and 50% cheaper than in Sri Lanka. Accordingly, there is some economic justification for imposing new consumption taxes, which can in turn improve current fiscal imbalances and secure fiscal space for health.

Efficiency in pooling and using resources

Good: Bhutan has a significant opportunity to address both allocative and technical inefficiencies as they relate to NCDs. Given low or moderate prospects for fiscal space from other DRUM pillars, *improving efficiency and making additional room within the existing resource envelop should become a primary focus in the near term.*