

## Input Document Unit 5

# UNIT 5. TYPES OF HEALTH ACCOUNTS

### Summary

A link between health expenditures and the rest of the economy is critical for gauging the relative magnitude of health care spending. From the authors' experience, this is often a challenge particularly in countries with a paucity of data. Other methods to contextualize health care spending should be addressed. Namely, the development of disease-specific or priority area specific sub-accounts that mirror the NHA framework would be a useful tool that would allow policymakers to better assess resource allocation. Additionally, a connection between NHA and other resource accounts, such as the National AIDS Spending Assessment (NASA), is a worthwhile objective.

Author .....Health Systems 20/20  
 Affiliation ..... USAID  
 Submitted on ..... 18/07/2008  
 Document code ..... SHA-REV-05001

*The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation for Economic Co-operation and Development or of the governments of its member countries, those of the World Health Organization or those of EUROSTAT or the European Commission.*



# CONTENTS

- Contents ..... iii
- Acronyms ..... iv
- Acknowledgments ..... v
- Executive Summary ..... vii
- 1. Unit 5. Types of Health Accounts ..... 1
  - 1.1 Summary ..... 1
  - 1.2 Highlighted Recommendations ..... 1
  - 1.3 Health Accounts in Context ..... 1
  - 1.4 Accounts of Gross Capital Formation in the Health Sector ..... 2

# ACRONYMS

<b>USAID</b>	United States Agency for International Development
<b>PHR</b>	Partners for Health Reform
<b>PHRplus</b>	Partners for Health Reformplus
<b>SHA</b>	System of Health Accounts
<b>NHA</b>	National Health Accounts
<b>PEPFAR</b>	President's Emergency Plan for AIDS Relief
<b>MoH</b>	Ministry of Health
<b>ECSA</b>	East, Central, and Southern Africa
<b>NGO</b>	Nongovernmental Organization
<b>MoF</b>	Ministry of Finance
<b>MDG</b>	Millennium Development Goals
<b>IMF</b>	International Monetary Fund
<b>NPISH</b>	Non Profit Institutions Serving Households
<b>NASA</b>	National AIDS Spending Assessment
<b>GDP</b>	Gross Domestic Product
<b>SNA</b>	System of National Accounts

# ACKNOWLEDGMENTS

These documents are the results of a collaborative effort of members of the Health Systems 20/20 team, including Jonathan Cylus, Susna De, Yann Derriennic, Takondwa Mwase, Lisa Fleisher, Manjiri Bhawalkar, Stephanie Boulenger, MariFer Merino, Ellie Brown, Jenna Wright, and Darwin Young.

Additionally, this paper received significant input and guidance from many country NHA counterparts including Thomas Maina (Kenya), Stephen Muchiri (Kenya), Dan Osei (Ghana), Tesfaye Dereje (Ethiopia), Stephen Karengera (Rwanda), Dr. Hossein Salehi (Iran and WHO), Solomon Kagulula (Zambia and WHO), Thomas Mbeeli (Namibia), Marie-Jeanne Offosse (Ivory Coast), Ricardo Valladares Cardona (Guatemala), and Rafael Esquivel (Guatemala). The opinions of low- and middle-income countries are critical to enhancing the System of Health Accounts' (SHA) effectiveness as a universal tool in national health accounting.



# EXECUTIVE SUMMARY

The following SHA input document reflects the authors' experiences with implementation of National Health Accounts (NHA) in low- and middle-income countries, particularly those countries that have worked with the Health Systems 20/20 project and its predecessor projects namely Partners for Health Reform (PHR) and Partners for Health Reformplus (PHRplus). These projects together represent over 10 years of experience in NHA in low- and middle-income countries, largely in Africa, the Middle East, and Latin America and the Caribbean.

While we comment on many areas suggested by the Invitation for Input Documents, we have attempted to focus our attention on those areas with which we have had the most experience.

# 1. UNIT 5. TYPES OF HEALTH ACCOUNTS

## 1.1 SUMMARY

A link between health expenditures and the rest of the economy is critical for gauging the relative magnitude of health care spending. From the authors' experience, this is often a challenge particularly in countries with a paucity of data. Other methods to contextualize health care spending should be addressed. Namely, the development of disease-specific or priority area specific sub-accounts that mirror the NHA framework would be a useful tool that would allow policymakers to better assess resource allocation. Additionally, a connection between NHA and other resource accounts, such as the National AIDS Spending Assessment (NASA), is a worthwhile objective.

## 1.2 HIGHLIGHTED RECOMMENDATIONS

- 1) Ongoing efforts to develop disease-specific or priority area specific sub-accounts within the ICHA classifications that mirror the NHA framework should be acknowledged and incorporated.
- 2) SHA revisions should acknowledge and endorse the ongoing efforts to create a connection between NHA and other resource accounts, such as the NASA; those sub-account frameworks will need to be updated once SHA is revised.

## 1.3 HEALTH ACCOUNTS IN CONTEXT

There is considerable value in understanding health expenditures in the context of other macroeconomic variables. In many low- and middle-income countries, health care spending accounts for a comparatively small amount of GDP and investment. For example, countries in the ECSA region spend an average of only 7 percent of their GDP on health care. Health care spending in the developing world is comparatively high in relation to personal consumption.

Nevertheless, it may be premature for some low- and middle-income countries to incorporate balancing items other than GDP (e.g., operating surplus, disposable income, saving and net lending/net borrowing) into health accounts. The accounting systems of many countries are still maturing since the revision of the SNA 1993 (SNA93) and some countries have just recently completed revisions of their GDP data after discovering that they had been underestimating. Utilizing inaccurate macroeconomic variables erroneously portrays health spending in the context of the whole economy.

This does not mean that the relative contribution of health sector components cannot be assessed. It is still pertinent to contextualize elements of health care spending in terms of total health spending to develop a greater understanding of the overall health economy. For example, a table that illustrates the public share of total health expenditures reveals the burden of health care spending on the government.

Similarly, the donor share of total health expenditures provides an idea of the financial responsibility that the government will face once donor aid ceases. The out-of-pocket burden is demonstrated by evaluating households' share of total health expenditures. Maintaining a focus on indicators and tables that are within a developing country's health sector gives a greater context to spending, while avoiding the uncertainties of macroeconomic variable measurement error.

Additional types of accounts within the health care context are disease-specific or priority area specific health accounts. Disease-specific health accounts are an important area of focus for policymakers and donors in the developing world. Disease and priority area expenditure reviews are useful to inform many international agreements, including MDGs and International Conference on Population and Development and United Nations General Assembly Special Sessions declarations. Many diseases, including malaria and tuberculosis, place a tremendous burden on the health care systems of low-income countries. An understanding of where the financial burden of these diseases lies is one tool for policymakers and donors aiming to more cost-effectively allocate resources. Using the NHA framework, disease-specific health accounts show who is financing care for a specific disease and who is delivering it, better enabling financing sources to efficiently direct their funds. In the developing world, resources should be dedicated to assess the feasibility and value of creating disease-specific health accounts. Work on disease-specific accounts is already in progress in Zambia and some other ECSA countries.

NHA should also be linked to other resource accounts, such as the NASA. These ongoing efforts should be acknowledged in the SHA revisions.

## **1.4 ACCOUNTS OF GROSS CAPITAL FORMATION IN THE HEALTH SECTOR**

One policy-relevant set of accounts is to report capital formation in the health sector. A methodology must be established well before low- and middle-income countries devote their resources to measuring these expenditures. We present three options for accounting for gross capital formation. The first option is to include total gross fixed capital formation (e.g., construction of hospitals) in the first year as investment. In subsequent years, a methodology to deduct consumption and depreciation of gross fixed capital from capital stock must be implemented. Another option is to include gross fixed capital formation in the first year, but not to account for depreciation or consumption. While this would be the simplest method and is currently commonly used by many countries, it would not provide policymakers with an accurate measurement of health sector capacity. A third approach would be to include only the consumption of fixed assets. This would involve a determination of how much capital is consumed in each year until the end-of-life of that capital. Total expenditure on gross capital formation would not be accounted for in this method to prevent double counting. Discussion should be encouraged to determine if one of these approaches, or another option, is most appropriate.