TECHNICAL REPORT 4

SP4PHC
Strategic Purchasing for Primary Health Care

OVERVIEW OF HEALTH FINANCING FLOWS IN UGANDA

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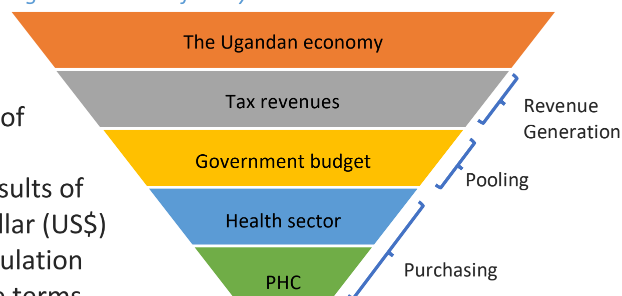
ABBREVIATIONS

CHE	current health expenditures
FY	financial year
GDP	gross domestic product
HDP	health development partners
MOFPED	Ministry of Finance, Planning, and Economic Development
MOH	Ministry of Health
MTEF	medium-term expenditure framework
PAF	Poverty Action Fund
PFM	public financial management
PHC	primary health care
RAF	resource allocation formula
UgIFT	Uganda Intergovernmental Fiscal Transfer project
UHC	universal health coverage
URA	Uganda Revenue Authority
US$	United States dollars

INTRODUCTION

This report documents the nature and magnitude of financial flows to Uganda's health sector and the purchase of primary health care (PHC) services. Developed in consultation with the Ugandan Ministry of Health (MOH), it serves as a corollary to ThinkWell's review of the purchasing landscape for health services in Uganda (Jordanwood et al. 2020). Starting from an overview of the Ugandan economy, government revenue generation, and pooling, it describes financial allocations by the Government of Uganda (GOU) to the health sector and the purchase of PHC services as shown in the funnel of analysis in Figure 1. The results of the analysis are presented in constant 2019 United States dollar (US$) per capita amounts. This measure accounts for the rapid population growth rate in Uganda and provides figures in easily relatable terms.

Figure 1: Funnel of analysis



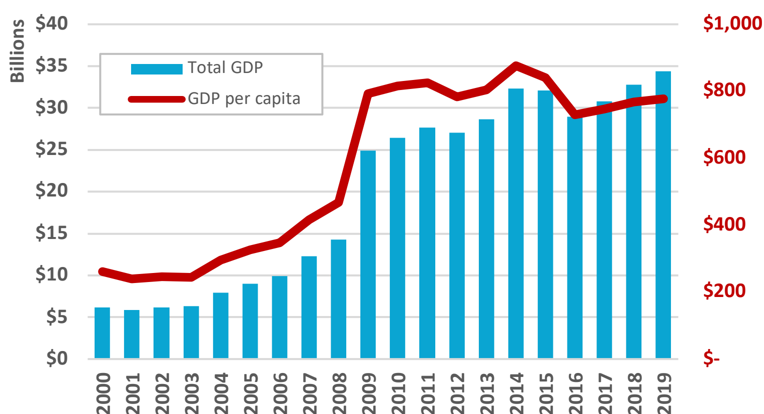
The analysis is based on publicly available data from the GOU, the World Bank, the Uganda National Health Accounts, and relevant literature. World Bank estimates of gross domestic product (GDP), inflation, currency exchange rates, tax revenues, and population data have been extensively used at the macro level. The GOU Annual Budget Performance reports from financial years (FY) 2015/2016 through 2018/2019 have provided general government and health sector-specific expenditure details. The analysis also relies on a review of key statutes that define and guide Uganda's public financial management (PFM) system and practices, purchasing arrangements, and decentralization, along with other relevant studies, as noted below.

THE UGANDAN ECONOMY

A brief overview of Uganda's economic structure and trends.

Over the last two decades, as measured by GDP, Uganda's economic growth has grown by an annual average of 6.3%, higher than the 4.4% average in sub-Saharan Africa (World Bank Group n.d.). While the total GDP of Uganda has continued an upward trend, per capita GDP has stagnated since 2009 (Figure 2), in part due to high population growth rates (World Bank Group n.d.). Despite the economic progress made during the last two decades, Uganda will need faster growth to reach its vision of achieving middle-income status by 2040 (Uganda National Planning Authority 2013), given that 2019 estimates of GDP stand at US$776.77 per capita (World Bank Group n.d.).

Figure 2: Total GDP versus average GDP per capita

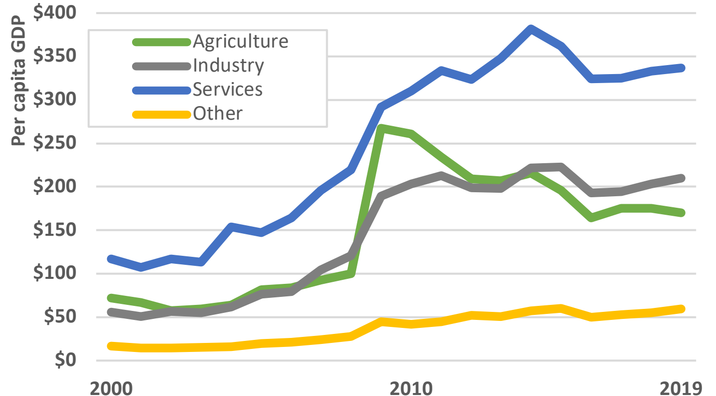


Source: Author's presentation of data (World Bank Group n.d.)

The structure of the economy has changed substantially in the last 20 years yet is still largely informal and characterized by high poverty rates. As illustrated in Figure 3**,** the service sector has seen the highest growth and currently represents 43.3% of the economy. The industrial sector contributes 27.1%, having overtaken

agriculture, which now stands at only 22% of GDP (World Bank Group n.d.). As of 2017, an estimated 60.7% of the working-age population either work in subsistence agriculture (39.5%) or were not currently working (21.2%) (Uganda Bureau of Statistics 2018). Overall economic growth of the economy has resulted in steady but limited reductions in chronic poverty. As of 2016, 41.7% of the population lived below the international poverty line of US$1.80 per capita per day (United Nations Children's Fund and Uganda Bureau of Statistics 2019).

Figure 3: Per capita contributions to GDP by sector



Source: Author's presentation of data (World Bank Group n.d.)

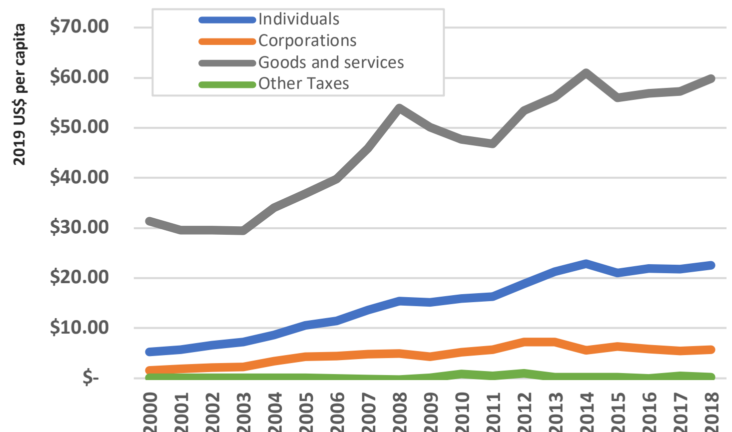
REVENUE GENERATION

Key features of government revenue generation processes.

Government revenue generation in Uganda is highly centralized. The Uganda Revenue Authority (URA) operates as the national agency to enforce taxation laws, assessments, collections, and accounting of revenues (Uganda Ministry of Finance Planning and Economic Development 2019b). Although the 1997 Constitution grants decentralized local governments the power to levy taxes and other fees, in practice, they are required to remit all revenues back to the central government (Uganda Ministry of Finance Planning and Economic Development 2018).

The growth in tax revenue has been primarily driven by the taxes on goods and services and on individuals (Figure 4). Value-added taxes on goods and services are the largest source of revenue to the government at US$59.90 per capita in 2018, followed by taxes on individual incomes (US$22.6) and corporate taxes (US$5.80), among others (Organization for Economic Co-operation and Development n.d.). The size of the informal sector creates challenges to the revenue generation efforts (Uganda Ministry of Finance Planning and Economic Development 2019b). In FY 2018/2019, total government revenues from taxes, non-tax revenues, and grants reached an estimated US$115.40 per capita (World Bank Group n.d.).

Figure 4: Per capita tax collection trends 2000-2018

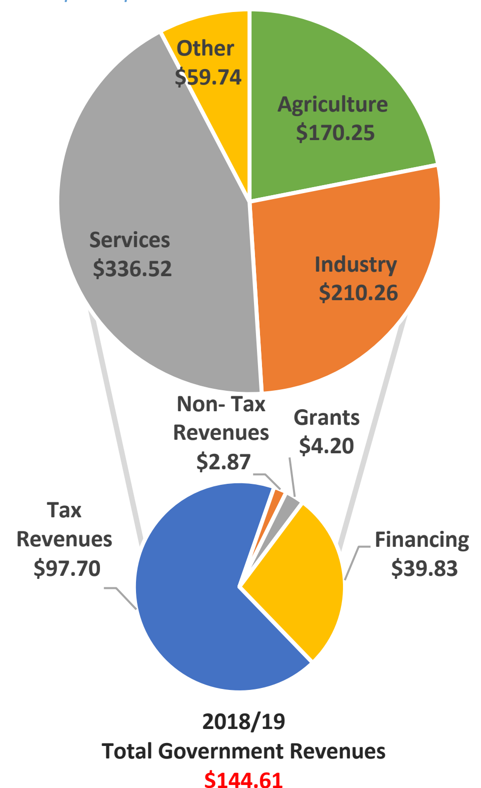


Source: Author's presentation of data (Organization for Economic Co-operation and Development n.d.)

Uganda is facing significant budgetary challenges, as government expenditures have been consistently higher than revenues in recent years. In FY 2017/2018, the annual fiscal deficit reached 4.75% of GDP, funded mostly through external borrowing, primarily from the World Bank's International Development Association and China (World Bank Group n.d.; Uganda Ministry of Finance Planning and Economic Development 2019a). Between FY 2014/2015 and 2018/2019, the deficit contributed to a debt-to-GDP ratio that rose from 26.2% to 36.1% (Uganda Ministry of Finance Planning and Economic Development 2019b). In FY 2018/2019, a total of

US$39.83 per capita in both domestic and international financing contributed to the government's available resources (World Bank Group n.d.). **Figure 5** illustrates the relationship between GDP per capita and government revenue sources in 2019. Combined total government revenues in FY 2018/2019 were US$144.61 per capita.

Figure 5: Breakdown of 2019 GDP and government revenues per capita



Source: Authors' calculations (World Bank Group n.d.)

There are currently no revenue generation mechanisms specific to the health sector. The MOH, national-level institutions, and local government health systems rely exclusively on allocations from the central government for their financing. While many higher-level public facilities have established private wings that charge clients for services, all of their revenue must be remitted back to the central government's consolidated fund. These resources are then reallocated in the annual budgeting process. While there are taxes on alcohol, cigarettes, and sugar in Uganda (what in other countries would be called "sin taxes"), the revenues generated by these taxes are not earmarked for health (Uganda Ministry of Finance Planning and Economic Development 2019a).

RESOURCE POOLING

This section presents the pooling mechanisms of general government revenues.

In the Ugandan PFM system, all revenues are remitted to a central consolidated fund of government resources. All revenues generated by the central GOU, local governments, or other public agencies are remitted to a central consolidated fund under the Treasury Single Account arrangement managed by the Ministry of Finance, Planning, and Economic Development or MOFPED (Uganda Ministry of Finance Planning and Economic Development 2018). All GOU funding to the health sector is derived from the central consolidated fund and, by recent estimates, contributes a total of 17.2% of annual current health expenditures (CHE) (Uganda Ministry of Health 2021).

Health development partners (HDPs) provide a large share of the funding to the health sector in Uganda. An estimated 41.4% of CHE are from the vast array of HDPs (Uganda Ministry of Health 2021). Most of the health sector spending by HDPs is off-budget, with only an estimated 21% of HDP funding coordinated through the national budget (Uganda Ministry of Health and United Nations Children's Fund 2020). In the early 2000s, the international aid community provided extensive support to Uganda's national budget with donor commitments aligned to the GOU's medium-term expenditure framework (MTEF) and channeled through an on-budget, multisectoral Poverty Action Fund (PAF). At its height, PAF expenditures accounted for roughly half of the overall budget (Bird 2003). Following a significant corruption scandal uncovered in 2012 (Piccio 2012), many donors froze aid to Uganda or began channeling their support off-budget.

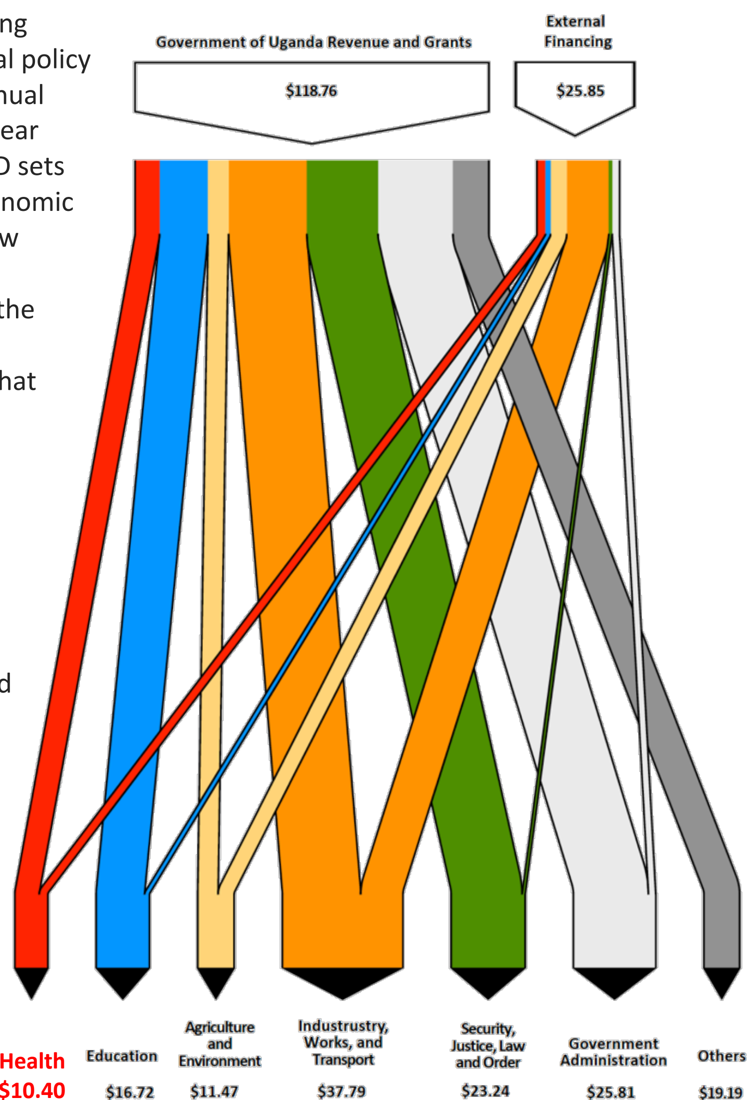
Private expenditures are a major source of financing to the health sector at an estimated 41.4% of CHE. Private expenditures for health care are high, primarily comprising out-of-pocket payments for curative care and medical goods. The significant areas of out-of-pocket expenditures were for noncommunicable diseases, malaria, and non-specified infectious diseases. Insurance coverage is relatively low in Uganda, with only an estimated 5% of private expenditures going to insurance premia (Uganda Ministry of Health 2021).

HEALTH SECTOR PHC PURCHASING ARRANGEMENTS

This section analyzes the GOU purchasing arrangements and allocations for PHC services.

The MOFPED leads the budget development process. Both the 1997 Constitution and the 2015 Public Financial Management Act grant the MOFPED the mandate to manage public finances for which it has significant political support, allowing it to establish and maintain firm control of fiscal policy (United Nations Children's Fund 2018). The annual government budget is developed using a five-year MTEF that is organized by sector.[1] The MOFPED sets annual sectoral allocations based on macroeconomic trends, historical expenditure patterns, and new government policies. At the start of the annual budgeting process in September of each year, the MOFPED communicates, through budget call circulars, indicative allocations for each vote[2] that include disaggregated amounts for wages, operational funds, capital expenditures, and external financing.

Figure 6: Government budget allocations by sector in FY 2018/2019



Source: Author's representation of data from (The Republic of Uganda 2019)

Vote holders, including those in the health sector, have a limited ability to influence allocation decisions. Throughout the budget preparation phase, consultations by the MOFPED with other line ministries are reported to be ritualistic, with representatives of vote holders only able to exert minimal influence on overall allocations (United Nations Children's Fund 2018). As a result of these dynamics, vote holders are primarily responsible for preparing activity work plans, developing detailed budgets, overseeing expenditures, and submitting financial reports.

Government budget allocations to the health sector are far below the Abuja declaration target of 15%. Out of the annual per capita budget of US$144.61 in the 2018/2019 fiscal year, only US$10.40, or 7% of the overall, was allocated to the health sector (The Republic of Uganda 2019). This amount for health is much lower than the estimated requirement of US$86 per capita (in 2012 terms) to deliver essential health services in low- and middle-income countries (McIntyre and Meheus

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[1] As part of the implementation of program-based budgeting, as of FY 2021/22 the budget started to be organized around the objectives of the third National Development Plan rather than sectors.

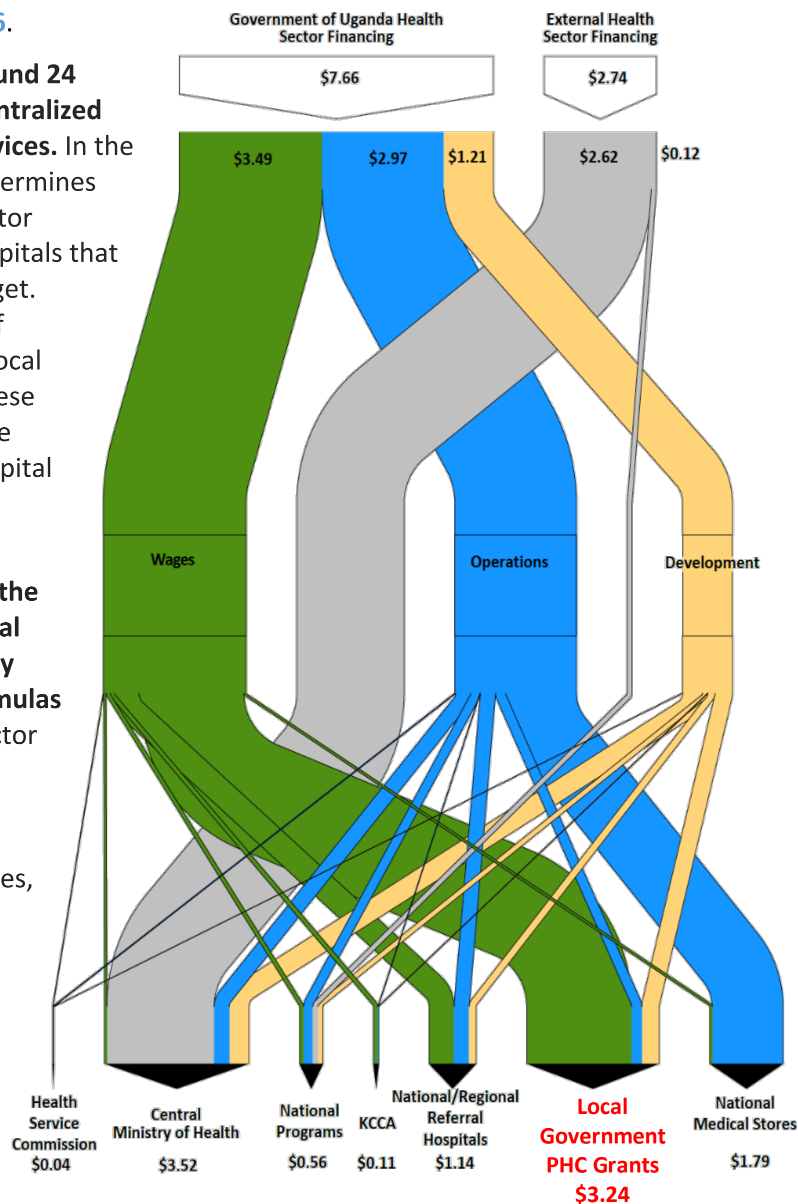
[2] Public administration entities with budget allocations are referred to as "vote holders."

2014). Looking broadly at government spending in key public service sectors, health receives less than other key sectors, as shown in Figure 6.

The health sector budget is structured around 24 central-level votes and allocations to decentralized local government votes to deliver PHC services. In the annual budgeting process, the MOFPED determines allocations to the MOH, national health sector agencies, and the national and regional hospitals that have stand-alone votes in the national budget. Additionally, MOFPED defines allocations of conditional grants for the health sector to local governments at the district level. Within these allocations to district local governments, the amounts for wages, operational funding, capital expenditures are specified (The Republic of Uganda 2019).

Within each district, the MOH determines the allocation of conditional grants to individual facilities and district health offices, partially using needs-based resource allocation formulas (RAFs). Through the issuance of annual 'Sector Grant and Budget Guidelines to Local Governments,' the MOH determines the specific allocations to each PHC facility by district with further desegregations for wages, operational funds, and capital expenditures (Uganda Ministry of Health 2019). These grants to district-level health offices and facilities are collectively known as PHC grants. The allocations for operational funding are determined by applying the RAFs, and individual districts are not able to influence the balance of government funding allocations to the facilities under their jurisdiction.

Figure 7: Total health sector budget allocations and per capita flow of funds in FY 2018/2019

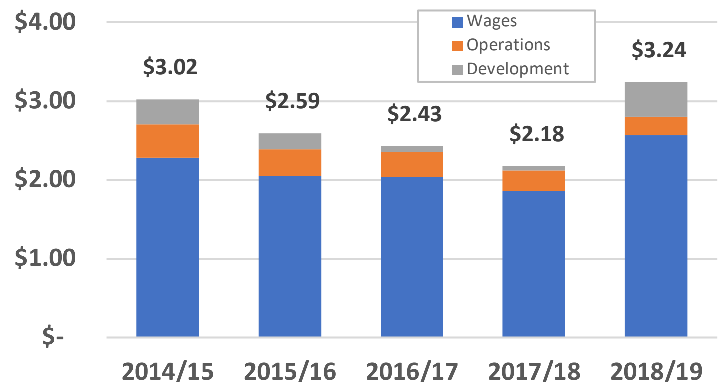


Source: Author's representation of data (The Republic of Uganda 2019)

On-budget donor support is channeled through the central MOH. The donor funding that is on-budget is channeled through the vote of the MOH in the national budget and is largely used to purchase drugs and medical equipment as well as operational funding to local government levels through "subventions" that are included in the Sector Grant and Budget Guidelines to Local Governments (Overseas Development Institute 2019). For the 2018/2019 fiscal year, subventions included the financing provided by the Global Vaccine Alliance (Gavi) and the Uganda Reproductive, Maternal, and Child Health Improvement Project (URMCHIP) financed through the World Bank (PHC guidelines). Off-budget donor funding to the health sector is largely managed through direct funding to specific health system elements that are not tracked within the national budgeting process.

Increased allocations to the health sector have not adequately kept pace with population growth over the last five years. Between FY 2015/2016 and FY 2018/2019, funding for the health sector increased in absolute terms by US$86 million, with per capita allocations of GOU financing rising from an estimated US$6.16 to $7.66 (The Republic of Uganda 2014; 2015; 2016; 2017; 2018). While the allocations for central health agencies remained roughly constant, greater allocations to local governments through PHC grants in FY 2018/2019 resulted from the MOFPED Uganda Intergovernmental Fiscal Transfer project (UgIFT), partially supported by the World Bank, as shown in Figure 8. The UgIFT project supports increased government transfers to the service delivery level in both the health and education sectors (World Bank 2017).

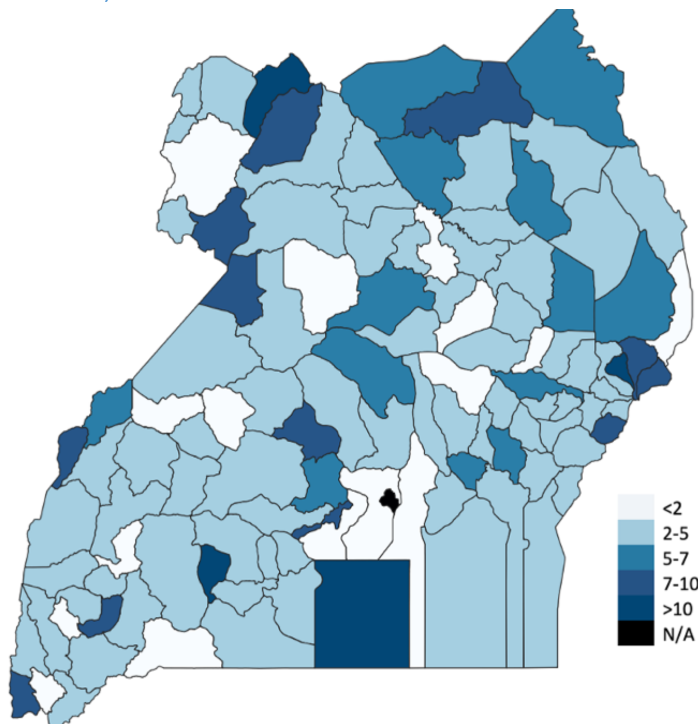
Figure 8: Per capita local government PHC grant allocations by category 2015/2016-2018/2019



Source: Authors' calculations (The Republic of Uganda 2014; 2017; 2018; 2015; 2016)

Following the steady per capita decline in PHC grants between FY 2014/2015 and FY 2017/2018, the increases seen in FY 2018/2019 were not evenly apportioned. While there was a significant increase in wages and development grant allocations, the operational grants declined from US$0.26 to $0.24 per capita between FY 2017/2018 and FY 2018/2019 (Figure 8). The reduction in allocations of operational grants to PHC facilities risks affecting their ability to function and deliver essential promotion, prevention, and curative services.

Figure 9: Total Per capita local government PHC grant allocations in FY 2018/2019



Source: Author's representation of data (Uganda Ministry of Health 2020)

The analysis of the FY 2018/2019 total allocations to local governments reveals that, despite the policy relevance of PHC, allocations are below international benchmarks and unequally distributed. While 16 local governments received less than US$2 per capita for the delivery of PHC services, 16 received more than US$7 and four more than US$10, as shown in Figure 9. There is a mismatch between the emphasis placed on PHC as a strategy that will support Uganda's efforts to attain universal health coverage and the funding allocated to the delivery of PHC services.

DISCUSSION

The MOFPED has the most significant influence in determining health purchasing allocation decisions to the health sector. The legal documents laying out the PFM arrangements governing resource allocation decisions in Uganda grant MOFPED the mandate to manage public finances and control fiscal policy. As such, line ministries, including the Ministry of Health, have limited leverage to influence the allocations to the votes they oversee and across the funding of wages, operations, and development grants.

Over the past five years, allocations to local governments have increased, but not enough to meet the population growth rate and effectively contribute to health services delivery. Following the introduction of the UgIFT Project, the per capita expenditure on wages and capital development grants has increased; however, operational expenditures per capita have decreased. Although investments in staff and infrastructure are critical to improving health services coverage, they should be commensurate with increases in operating funds to ensure that facilities can meet the demand for service delivery.

The current level of PHC allocations is insufficient to pursue the UHC agenda and unequal across the country. Despite the increase in PHC allocations recently registered, much progress needs to be made to reach the threshold of US$86 per capita to deliver universal PHC services to support UHC. There are important inequities in the allocation levels to local governments that further hinder the delivery of PHC services.

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