

# Establishment of a Health Fund

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## Project Development Objective

- To inform the design of the health fund as part of the country's broader health sector reforms
  - *Establish whether the overall and specific objectives of the proposed Health Fund will be met in the short to long term*
- **Specific Objectives**
  - *Critically analyze the revenue generation potential for each of the eleven (11) proposed earmarked taxes. Include revenue simulations and scenario analysis of expected level of revenue at different tax points and tax levels, elasticity of the tax with changes in prices and inflation etc;*

## Specific Objectives ...

- Pursuant to 1.1, make reference to the broader macroeconomic environment including: regressivity, trade flows and business income, consumption patterns etc;
- If 1.1 is feasible, review the proposed managerial and institutional arrangements by looking at: admin. costs, political feasibility, and transparency, linkages to the EHP, and other health reform areas such as health insurance, hospital reforms, and decentralization;
- Review the financial sustainability of the Fund over a twenty (20) year period vis-a-vis the administrative costs, broad external and domestic funding, GDP growth etc.

## Scope of Work (summary)

- Systematic review of each of the 11 proposed earmarked taxes in line with the policy objectives outlined in the GOM's concept note. This will be a comprehensive assessment of:
  - Overall tax structure in relation to the proposed earmarked taxes
  - Tax revenue forecasting
  - Financing incidence
  - Tax buoyancy
  - Elasticity of the tax with changes in inflation and prices
  - Impact on the broader macroeconomic environment including: regressively, administration costs, and political feasibility.
- *Managerial and institutional arrangements will only be reviewed if the above is feasible*

## Scope of Work (Detailed highlights) .... Analysis of tax and its impact

- Assumptions (*Predicted growth, proposed tax reforms, health financing gap*)
- Financing Incidence Analysis
- Evaluate the **buoyancy of the tax system** Responsiveness of tax revenues to changes in the national income (GDP/GNI).
- **Evaluation of Tax Elasticity** Responsiveness of tax revenues to discretionary changes in the tax rate and in the tax base in relation to the GDP
- Macroeconomic Environment
  - Changes in inflation and prices
  - Trade flows and business income
  - Domestic and international transactions
  - Changes in consumption patterns i.e. Demand for goods subject and/or substitution

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## Innovative financing (Earmarked Tax) options

	Mechanism	Fund-raising potential	Equity	Transparency	Administrative efficiency	Political feasibility
1	Tobacco products					
2	Alcohol					
3	Extractive industries					
4	Mobile phone talktime					
5	Fuel					
6	Corporate businesses					
7	Value Added Tax (VAT)					
8	Annual earnings paid by employee and employer to private health insurance schemes					
9	Moneys received from loans applied through Parliament					
10	Moneys earned by investments made by or on behalf of the Malawi Health fund					
11	Donations received from Developing Partners, Foundations etc					

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## Review Methodology

- Analyze existing reports and raw data that were used in the initial analysis in line with Malawi's country context and best practices
- Additional secondary analyses of demographic, macroeconomic, and revenue data
- Merging household data with tax data; data quality issues and how they were managed etc
- Models of Tax projections
- Models for tax incidence analysis
  - General Accounting Model
  - Overlapping Generations Models
- Revenue simulations and projections
  - Scenario analysis using different tax levels
  - Determine optimal taxation
- Analysis of price/income/cross price elasticities; implications for tax levels

## Data Needs & Consultations

- The data will be obtained from the USAID/SSDI, MoH, Ministry of Finance, Malawi Revenue Authority, National Statistical Office etc.
- Triangulating evidence from regional and international studies to gather best practices
- Consultations have been done with MoH (Planning Dept, Minister); GIZ; USAID/SSDI; World Bank Senior Economist; other Partners
- To be consulted: Ministry of Finance, Malawi Revenue Authority, National Statistical Office, academia, Other DPs, etc.

## Internal WBG Consultations

Activity	Date
1. AIS Sign-off	14-Oct-2015
2. Internal Review Meeting	4-Nov-2015
3. Concept Review	6-Jan-2016
4. Management Approval of Concept	15-Jan-2016
5. Management Endorsement of Deliverable	11-Jul-2016
6. Final Delivery/Completion Summary	29-Jul-2016

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## Timetable – Health Fund

	Reform Area/Work Package	Lead and co-lead	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
1	Critically analyze the revenue generation potential, expected level of revenue at different tax points and tax levels, and potential adverse effects for the 12 proposed earmarked taxes	World Bank (lead) UNAIDS (co-lead)						
2	Review the proposed managerial and institutional arrangements							
3	Review the financial sustainability of the Fund over a twenty (20) year period vis-a-vis the administrative costs, broad external and domestic funding, GDP growth etc							

*NB: Proceed to 2 and 3 only if 1 is feasible*

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