

# Session on Fiscal Decentralization and Health Key Definitions and Concepts

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# Forms of decentralization

	Definition	Health Sector Examples
Deconcentration	"Deconcentration" refers to a central government that disperses responsibility for a function to its field offices. This transfer changes the spatial and geographical distribution of authority, but does not significantly change the autonomy of the entity that receives the authority. Under deconcentration arrangements, the central government retains authority over the field office, and exercises that authority through the hierarchical channels of the central government bureaucracy. Deconcentration is the narrowest form of decentralization, as field offices lack any autonomy and budget/fiscal responsibility.	National Health Service National Health Insurance
Delegation	"Delegation" transfers service delivery responsibility to local governments or semiautonomous organizations that are not controlled by the central government but remain accountable to it. The main difference between deconcentration and delegation is that the central government exercises its control through a contractual relation that enforces accountability of service deliverer.	Healthcare Fund Voluntary Health Insurance
Devolution	Under "devolution," the central government allows autonomous local governments to exercise power and control over the transferred function. Compared to the other two forms of decentralization, devolution provides the greatest degree of autonomy for the local governments in service delivery.	Local service provision

# Dimensions of decentralization

	Definition	Health Sector Examples
Political	Decentralization can restructure the local political setting, reshaping local actor and voter incentives in many ways, such as changing the size of municipalities, reformulating local electoral legislation, and redefining formal relationships between the representative and executive bodies. It can also change the structure of legislative bodies, the balance between elected local authorities and local executives and administrators, the way councils are elected, the way executives are elected or appointed, and the structures for local legislative and executive bodies to relate to citizens.	Health User Committees
Administrative	Administrative dimension of decentralization is critical for local governments to be administratively autonomous: power to make, change and enforce regulatory decisions/laws; to govern a procurement system (based on national standards); and to make civil service/employment decisions.	Local Health Regulations (food hygiene or water fluoridation regulation) Employee functions (health workers)
Fiscal	Fiscal dimension of decentralization involves in redesigning intergovernmental fiscal architecture: service delivery responsibilities, revenue assignment, intergovernmental transfers, and borrowing for investments.	Intergovernmental fiscal architecture

# Political Dimension of Devolution

- Who is responsible for the oversight of service delivery units (SDUs)?
- What is the role of local government unit in managing SDUs?
  - Executive branch of LG (mayor)
  - Legislative branch of LG (council)

# Administrative Dimension of Devolution

- Do local government units have authority to make health regulations?
- Are local government units responsible for employee functions for health workers?
  - pay policy autonomy (setting overall wage rates as well as local hardship and remote allowances)
  - budget transparency (paying staff from one's own budget)
  - budget and establishment control (controlling staff numbers and authority to remove surplus staff)
  - recruitment autonomy (recognition as the formal employer)
  - career management control (vertical and horizontal mobility, including transfers to other units within the local government system)
  - performance management (directing and supervising activities and tasks, conducting evaluations, and exercising the ability to discipline and fire)
- Are local government units responsible for procurement?

# Fiscal Dimension of Devolution

- What are the service delivery responsibilities of local government units?
  - Healthcare is complex public service with externalities; therefore it is unreasonable to expect 100 % local provision of services (see economic arguments for centralization/decentralization)
  - Unbundling service delivery responsibilities—see Nepal example
- What are the sources of health financing?
  - National Health Insurance
  - Earmarked taxes
  - User fees and charges paid by patients at the SDUs
  - National general government revenues
  - Private or voluntary health insurance
- Design of intergovernmental transfers
  - Conditional earmarked transfers versus unconditional block grants
  - Formula based design versus ad hoc
  - Estimation of client-based financial norms
  - Periodicity of actual transfers to SDU budgets

# Economic arguments for centralization of health services

## Centralization

- ✓ Externalities (disease control)
- ✓ The existence of externalities do not necessarily imply centralization
  - There might still be welfare gains from decentralized provision relative to a centrally determined level of health care services
  - Providing local governments with subsidies may encourage efficient levels of health services to the point where the marginal social benefits for society as a whole from the provision of health care equals marginal costs
- ✓ Economies of scale (central intervention is considered as necessary to prevent inefficient location of facilities such as hospitals by local decision makers accountable to local electors)
- ✓ Bulk purchasing—more efficient pricing of inputs by a single purchaser of health care
- ✓ Decentralization might lead to inequalities in health outcomes (central intervention might be required to guarantee that local authorities are able to provide a similar level of health care services to the citizens in their constituencies)

# Economic arguments for decentralization of health services

## Decentralization

- ✓ Allocation function (Musgrave)—proximity (local decision makers have greater knowledge of the health needs of their populations and of local conditions that affect the production of health care than national policy makers)
- ✓ Some health service functions have local public goods characteristics (food hygiene or water fluoridation regulation)



# Nepal Unbundling Exercise

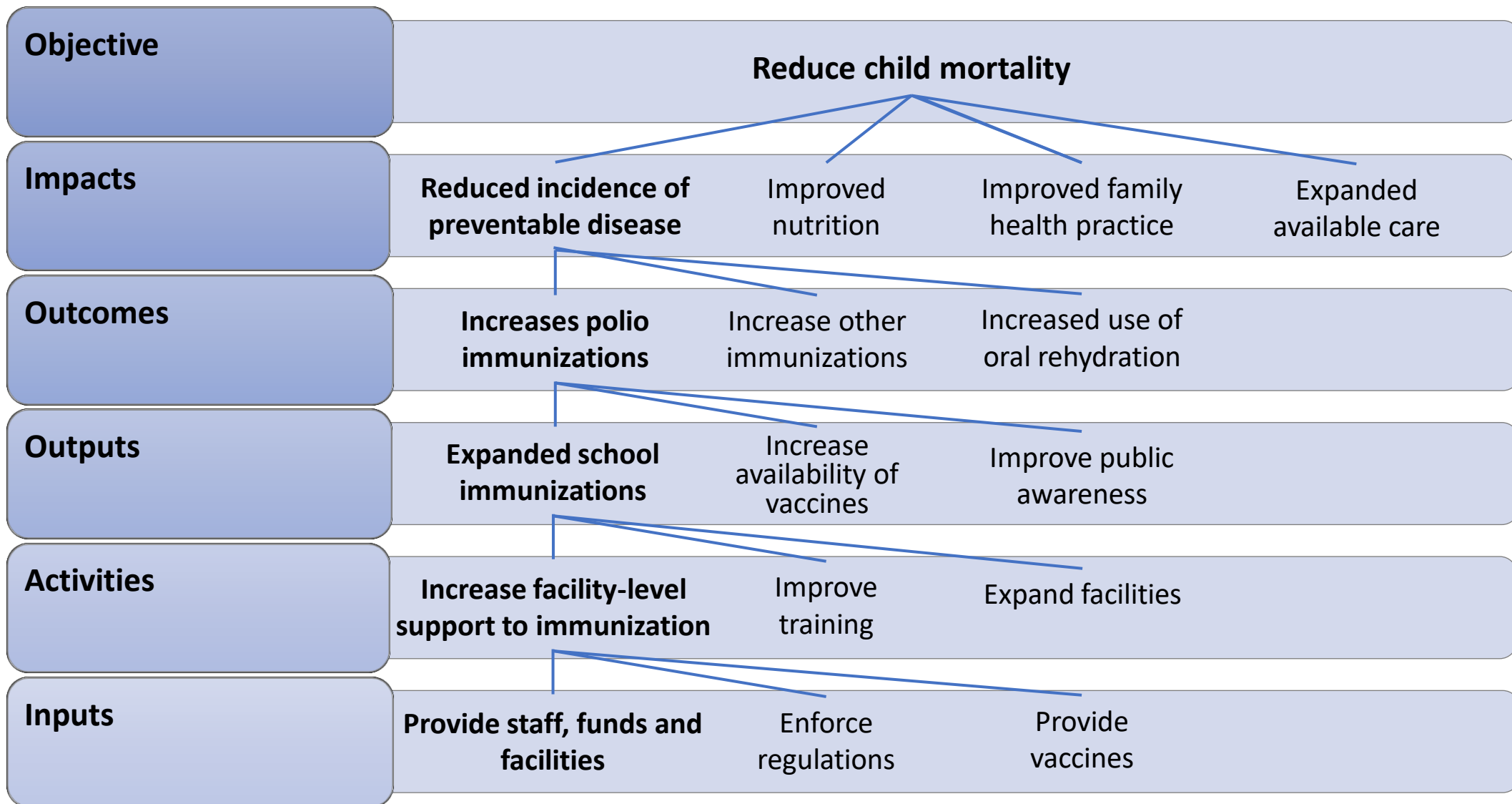
Federal	Provincial	Local
Development and promotion of promotional, preventive, curative, rehabilitative and palliative health services in national level	Provincial policy, law, quality standards, planning, implementation and regulation relating to health service and nutrition	Policy, law, standards, planning, implementation and regulation relating to basic health and sanitation
Formulation of standards and regulation of academic, occupational and professional institutions relating to health	Promotional, preventive, counter acting, curative, rehabilitative and palliative health service management as needed in the state level	Operation and promotion of basic health services
Establishment, operation and regulation of health institutions	Registration, operation, permission and regulation of state level academic, professional and occupational organizations relating to health services	Establishment and operation of hospitals and other health institutions
Accreditation of hospital and health institutions	Quality assurance, registration, permission for operation, management and regulation of state level treatment centers and services	Physical infrastructures development and management relating to health services
Registration, operation, permission, physical infrastructures, management and regulation of national or specialized service providing hospitals	Quality standards, registration, permission for operation and registration relating to production of medicinal and health technology materials, storage, maximum retail price, final disposal according to the national standards	Matters relating to healthy drinking water and quality of food materials and air and sound pollution control
Quality standardization and regulation relating to medicine health equipments and health technology production and development, storage, sales and distribution and final disposal	Agency wise cooperation and coordination	Management of sanitation awareness program and health related waste
International health regulation, health relating treaty and agreement and relation, coordination and cooperation with development partners	Registration, permission for operation and regulation of hospital and nursing house, Nidan (Curing) centre and other health institutions according to national standards	Collection, reuse, processing, disposal, determination of service fee and regulation of health related soli waste
Policy and standardization of traditional health treatment service including ayurvedic, yunani, amchi, homeopathy and naturopathy	Quality monitoring and analysis model of drinking water, food material, sound and air and standard of quality and implementation	Matters relating to blood circulation service, local and urban health service
Policy and standardization relating to communicable and non-communicable disease control	Implementation, surveillance and monitoring of provincial programs	Matters relating to medical shop operation and regulation
Policy, law, standards and regulation relating to health (treatment) tourism	Management and regulation of health insurance including health security programs according to national standards	Target and quality determination of local level according to the nation and provincial target and standards
Policy, law, standard and regulation relating to social security including health insurance		Clinic registration, operation, permission and regulation of general hospitals, nursing homes, observation centres and other health institutions
		Production, processing and distribution of medicine related vegetation, herbs and other medicine related materials
		Social security program management including health insurance
		Minimum price determination and regulation of medicine and other medical products in local level

# Nepal Unbundling Exercise—continued

Federal	Provincial	Local
Human resource development and management of health sector	State level health sector human resource development and management	Appropriate use of medicine and antimicrobial
National standardization, implementation and regulation relating to health services and material fee	Matters relating to pharma vigilance, appropriate use of medicine and antimicrobial resistance reduction	resistance reduction in local level
Pharma vigilance and regulation	Procurement and supply management of immunization and family	Procurement, storage and distribution of
Standard and regulation of medicine procurement and supply management	planning including quality sensitive medicine and health materials	medicine and health equipments in local level
Study, research and regulation relating to health science	Determination of priority of research, study and research and information delivery in the state level	Health system management in local level
Medicinal research of herbs and mineral	Institutional management of health information system and health audit system in the state level	Public health surveillance in local level
Management of health information system and health audit system	State level public health surveillance management	Operation of promotional, preventive, curative, rehabilitative and palliative health services of local level
Public health surveillance of national and international concern	State level standard and management relating to Ayurveda and other vogue health services	Promotion of public health including healthy lifestyle, nutrition, physical exercise, yoga, adoption of health circle, panchakarma
Standardization of basic health service	Standards, control and regulation of tobacco, alcohol and intoxicant matters	Control and management of zoonotic and insects related diseases
Formulation of national protocol of health service necessary in different level	Permission, operation and expansion of cure centers and laboratory services	Control in use and awareness promotion of tobacco, alcohol, and drugs related substances
Establishment of operation of national reference laboratory and testing centre	Public health emergency situation, disaster in health sector and epidemic management	Management of traditional health treatment services including ayurvedic, unani, amchi, homeopathy and naturopathy
Development of national referral system	Communicable and non-communicable disease control and prevention	Control plan and implementation of public emergency health, epidemic control in local level
Quality monitoring and analysis, model/pattern and quality standardization of drinking water, food stuffs and air	Physical infrastructures development and management relating to health service according to national standards	Control and prevention of communicable and non-communicable disease in local level
Model/scheme formulation, implementation coordination and regulation of health sector climate change adoption	Standardization, implementation and regulation relating to health related solid waste management	Matters relating to emergency health services delivery
Public health emergency situation, disaster in health and epidemic management	Provincial buffer stock management of medicine and medicine related materials for emergency situation	
Buffer stock management of medicine and medical equipment for emergency situation	Matters relating to Ayurveda, unani, amchi, homeopathic, naturopathy including traditional and health services management	
Determination of scope of basic health services	Emergency health services delivery	
Emergency health service delivery		

# Linking Local Level Powers and Mandates to the Sustainable Development Goals

	Development objectives	Local Level Constitutional Powers and Mandates (Schedule 8)	Sustainable Development Goals (SDGs)	Local Functions / Division(s)
1	Economic development	10a. Local markets	SDG 1: No Poverty SDG 2: Zero Hunger SDG 8: Decent Work and Economic Growth SDG 10: Reduced Inequality	(1) Local economic development
		11b. Irrigation 15. Farming and livestock, agriculture production management 18. Management and control of agriculture extension 2. Cooperatives		(2) Agriculture extension
2	Social development	8. Basic and secondary education	SDG 4: Quality Education SDG 3: Good Health and Well-being SDG 5: Gender Equality	(3) Education
		9a. Basic health		(4) Health
		22. Preservation and dev. of language, culture and fine arts 16. Senior citizens, people with physical disability and disabled 17. Collection of statistics of unemployed people		(5) Social development
3	Infrastructure development	7. Local development projects and programs 11a. Local, rural and agriculture roads 14. Distribution of land, building ownership certificates 19b. Small electricity projects, alternative energy	SDG 6: Clean Water and Sanitation SDG 9: Industry, Innovation and Infrastructure SDG 11: Sustainable Cities and Communities SDG 7: Affordable and Clean Energy	(6) Works / engineering / spatial planning
		9b. Sanitation (liquid waste) 19a. Drinking water		(7) Water and sanitation
4	Environmental management	10b. Environment conservation and bio. diversity 21. Watershed, wetland, wildlife, mines and minerals 9c. Solid waste 20. Disaster management	SDG 12: Responsible Consumption and Production SDG 13: Climate Action SDG 14: Life Below Water SDG 15: Life on Land	(8) Environmental management
5	Institutional development and good governance	12. Village / municipal / district assembly, local courts, dispute settlement and mediation 4. Local tax 5. Management of local services 6. Local statistics and record keeping 13. Management of local records 3. FM [radio] operation	SDG 16: Peace and Justice / Strong Institutions SDG 17: Partnerships to achieve the Goals	(9) Local Assembly / Local Executive Planning Unit Administration Unit Finance Unit
		1. Municipal police		(10) Public safety



# Public Financial Management Implications

Forms of Decentralization	Hypotheses/Assumptions
Deconcentration	<ul style="list-style-type: none"><li>• Low levels of participation of locals in planning and budgeting: budgets are prepared by district offices of MoH with little consultation with communities</li><li>• Low levels of budget accuracy (variation between budgeted and actual expenditures): even though central government has better capacity and information about cost drivers, centralized budget planning makes it difficult to estimate expenditures</li></ul>
Delegation	<ul style="list-style-type: none"><li>• Associated with high administrative costs (when services are purchased from a provider, like Healthcare Fund, there might be specific arrangements for payments)</li><li>• Has the potential to divert resources and support from mandated health financing mechanisms</li><li>• May be inequitable without public intervention either to subsidize premiums or regulate insurance content and price</li><li>• Applicability requires well developed financial markets and strong regulatory capacity</li></ul>
Devolution	<ul style="list-style-type: none"><li>• High levels of participation by population in the budgeting process (proximity)—budgets are prepared by local governments in a consultative manner</li><li>• Better budget accuracy—decentralized budgeting is expected to reduce variation between budgeted and actual expenditures by placing responsibility for budgeting in the hands of those who have best knowledge about needs</li></ul>

# PFM Processes that Affect Service Delivery in a Decentralized Setting

- Planning Challenges
  - Macro planning—National development planning
  - Multi-year strategic planning—for the sector strategic plan to be realistic and implementable, the planning process should combine a bottom-up and a top-down approach
  - Sector planning coordination across levels of governments—Sector planning should consider the needs identified at the local level while main priorities have to be determined at the national level taking overall resource availability into consideration
- Budgeting Challenges
  - Alignment with national government priorities and multiyear budget estimates
  - Budget classification, if local government units use different budget classification and chart of accounts

# PFM Processes that Affect Service Delivery in a Decentralized Setting

- Budget Execution Challenges
  - Absorptive capacity
  - Flexibility to reallocate funds
  - Timeliness to release funds
  - Payroll management
  - Operational supplies—procurement of drugs, vaccines, dressings, syringes, laboratory consumables
    - Procurement planning
    - Procurement methods (lowest-bid award)