Health, Nutrition and Population Global Practice

ASSESSMENT OF HEALTH FINANCING OPTIONS: PAPUA NEW GUINEA

KEY MESSAGES

This report examines three broad health financing options in PNG: (i) increasing the level of general revenue spending; (ii) introducing contributory, insurance-based health financing arrangements; and (iii) mobilizing additional resources through efficiency savings in the sector.

While PNG might potentially increase its level of public health spending in the medium to long term, the Government’s first priority should be to address the inefficiencies in spending that currently undermine service delivery and key health system goals such as equity of access.

Alternatives such as Social Health Insurance are not viable options to finance any increase in health spending given low levels of formal employment and administrative challenges.

Papua New Guinea’s (PNG) health system is characterised by low health inputs per capita, low health service contact rates and significant inequities in health care use. Health spending relative to Gross National Income (GNI) per capita and as a revenue share of Gross Domestic Product (GDP) is low. Government spending as a share of total health expenditure is, however, high and the financing system is dependent on a number of complex interactions between multiple agencies, both at the national and subnational level. Anecdotal evidence suggests that out-of-pocket (OOP) spending is minimal.

The current system of health financing has not delivered improved health outcomes; in fact, health outcomes in PNG have been stagnant in recent decades despite economic growth. PNG is not on track to meet any of the health-related Millennium Development Goals (MDGs). Figure 1 and Figure 2 show the economic growth versus two important health indicators: (i) infant mortality and (ii) stunting rate for children under 5. The health sector needs urgent attention to address the stagnant and in some cases declining health outcomes, meet the health care demands of a rapidly growing population and mobilize the necessary resources in a financially sustainable manner.

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This report examines three broad health financing options in PNG: (i) increasing the level of general revenue spending; (ii) introducing contributory, insurance-based health financing arrangements; and (iii) mobilizing additional resources through efficiency savings in the sector. The three options are not mutually exclusive.

**Increase fiscal space by increasing general revenue allocations to health**

In the medium to long term, there exists some scope for economic growth to mobilize additional general revenues for health, particularly with the commencement of Liquefied Natural Gas (LNG) production in 2015 and a number of additional extractive projects that are under active consideration. Based on past trends the Government of Papua New Guinea’s (GoPNG) health spending as a share of GDP is likely to remain flat. Government revenue as a share of GDP is, however, projected to fall over the medium term. Should GoPNG’s revenue base not improve, budgetary financing gaps are expected to emerge through 2017. As such, in the short to medium term, significant increases in fiscal space for health are unlikely.

**Introduce contributory insurance-based health financing**

In the current context, the introduction of comprehensive social health insurance (SHI) is not feasible or sustainable. The feasibility and sustainability of SHI as a health financing mechanism depends on how quickly it can be scaled up to cover the entire population. The informal sector accounts for over 67 percent of the population in PNG. In this context, SHI is likely to be a further drain on GoPNG revenues as additional government spending will be required to cover the informal sector. It is not likely to bring in significant new funding for health. Moreover, many of the prerequisites needed for effective implementation are also not in place. Administrative and technical capacity to run a comprehensive SHI scheme is currently limited. There is also limited regulatory capacity in the country.

**Mobilising resources through efficiency savings**

Continuing to rely on general revenue financing whilst mobilising additional resources through efficiency savings will be the most feasible and sustainable option for PNG. There is significant scope to realise efficiency gains through: (i) allocating more resources to primary care vis-à-vis tertiary care; (ii) improving the mix and productivity of inputs; (iii) leveraging the resources allocated to vertical programs; (iv) continuing improvement in procurement reform; (v) implementing improvements in planning and budgeting; and (vi) alternative financing modalities such as facility based budgeting and direct facility financing. These options will not only generate additional resources for health but will improve the sustainability of financing in the...
longer term. Improving the effectiveness and coordination of external donor resources will be equally important.

**Conclusion**

In conclusion, in the short to medium term, with total government revenues as a share of GDP expected to fall, there would be little additional fiscal space to allocate to health. In the medium to long term, assuming revenue and GDP prospects improve with the expansion of the LNG industry; PNG may well increase public health spending. However, a range of inefficiencies in health care may present a significant risk to the effectiveness of the public health spending. Increasing public spending on health in PNG is unlikely to substantially improve health outcomes until inefficiencies in the management, financing and delivery of health care are addressed.

Thus, while PNG might potentially increase its level of public health spending in the medium to long term, the Government’s first priority should be to address the inefficiencies in spending that currently undermine service delivery and key health system goals such as equity of access. In addition, alternatives such as Social Health Insurance are not viable options to finance any increase in health spending given low levels of formal employment and administrative challenges.

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