



# **Global Expenditure Gaps and Development Traps**

## **The Role of Private Health Insurance**

**Alexander S. Preker**

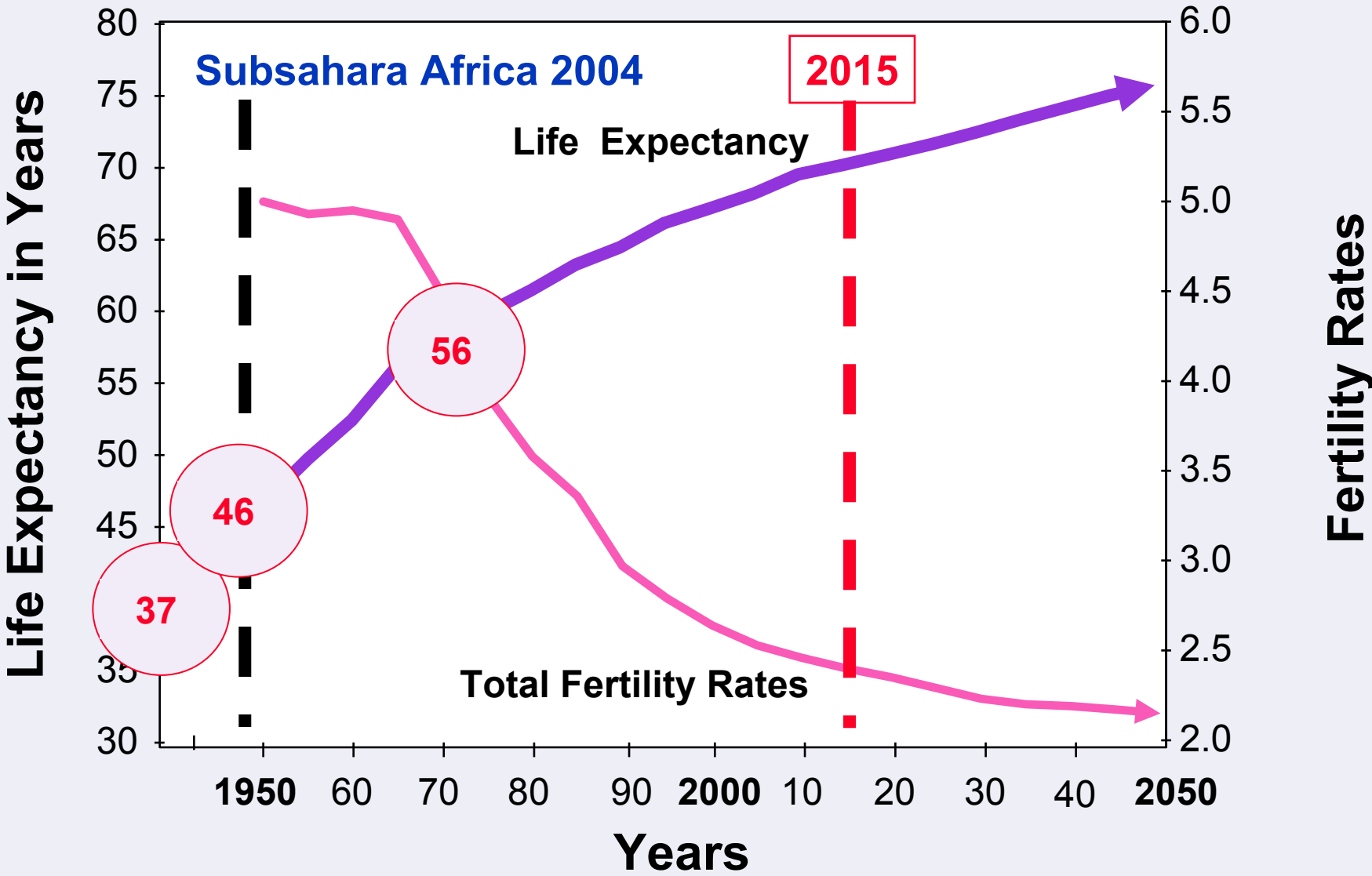
**Lead Economist**

**World Bank**

**The Wharton School**

**March 15-16, 2004**

# A Century of Unparalleled Improvement But Some are Left Behind



# Millennium Development Goals (MDG)

## Targets for 2015

### Extreme Poverty:

- Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.
- Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

### Safe Water & Sanitation:

- Halve by 2015 the proportion of people without sustainable access to safe drinking water.
- By 2020, achieve significant improvement in the proportion of people with access to sanitation.

### Child & Maternal Health:

- Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.
- Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.

### Primary & Girls' Education:

- By 2015, boys and girls everywhere complete a full course of primary schooling.
- Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

### Communicable Diseases

By 2015, halt and begin to reverse the spread of:

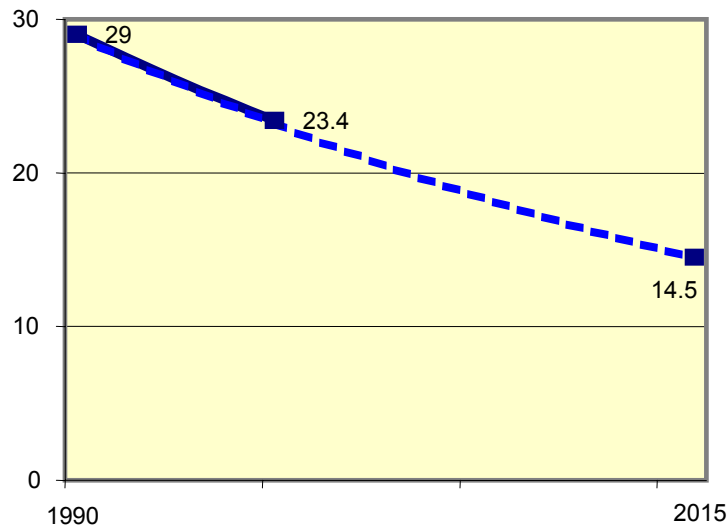
- HIV/AIDS
- Malaria &
- Other major diseases.

# Millennium Development Goals

## Global Aggregates

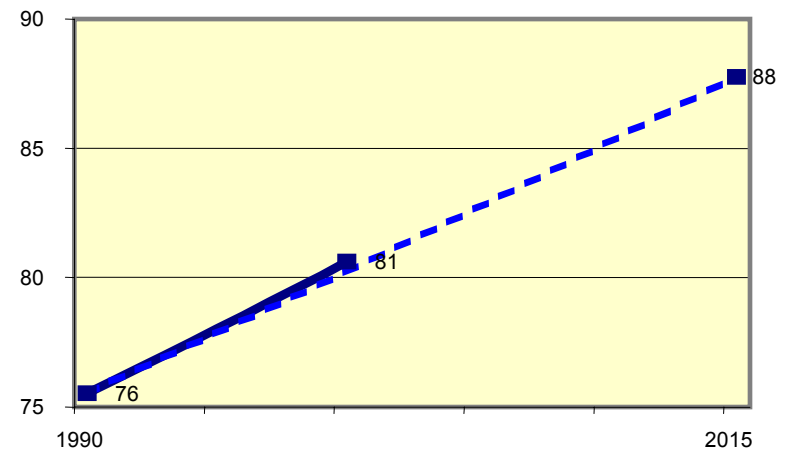
### Eradicate Poverty and Hunger

People living on less than \$1 a day



### Ensure Environmental Sustainability

Improved water source  
(% of population with access)

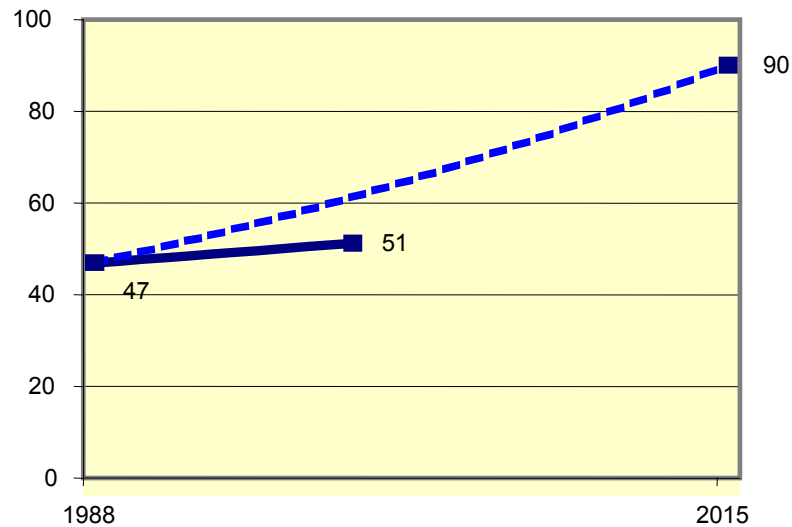


# Millennium Development Goals

## Global Aggregates

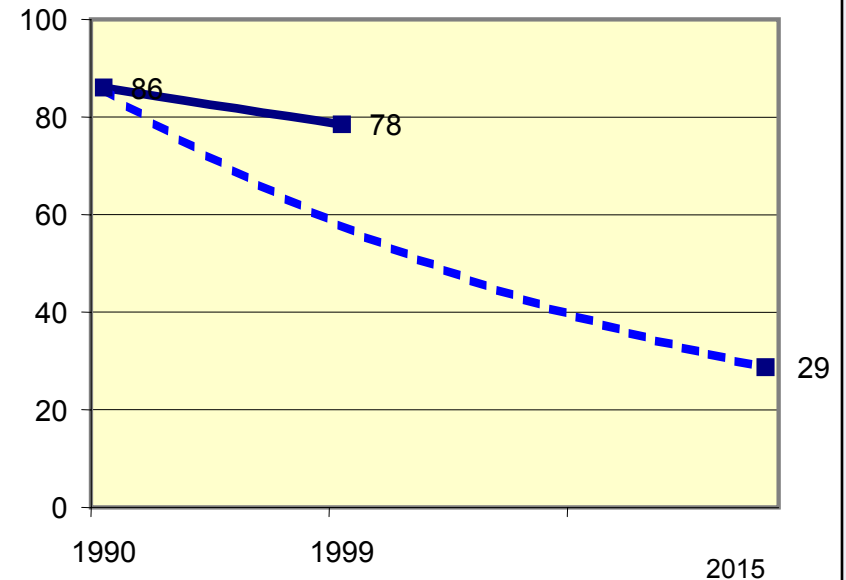
### Improve Maternal Health

**Births attended by skilled health personnel**  
(% total)



### Reduce Child Mortality

**Under Five Mortality**  
(per 1,000 live births)



# Sub Sahara Africa has Further to Catch Up than Other Regions

	Under-five mortality rate		Infant mortality rate		Child immunization rate, measles	
	per 1,000		per 1,000 live births		% of children ages 12-23 months	
	1990	2002	1990	2002	1990	2002
<b>World</b>	<b>95</b>	<b>81</b>	<b>64</b>	<b>55</b>	<b>72</b>	<b>72</b>
Low & middle income	103	88	69	60	72	71
<b>Sub-Saharan Africa</b>	<b>187</b>	<b>174</b>	<b>110</b>	<b>103</b>	<b>57</b>	<b>58</b>

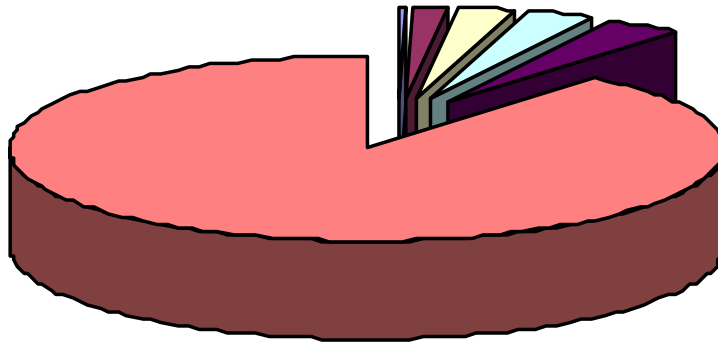
# How Much Would it Cost?

## Let us Look at a Few Numbers

- Global GDP
  - **US\$31 Trillion** (3 percent Growth Rate)
- Global Health Spending
  - **US\$2.6 Trillion** (8 percent of Global GDP)
- Spending In Developing Countries
  - **US\$280 Billion** (11 percent of total spending)

# Only 11 Percent of Global Spending for 90 Percent of the World's Population

**Global Health Expenditure = US\$2.6 Trillion**



Africa 0.4%

Middle East and N Africa 1.5%

Europe 2.4%

Americas 3.2%

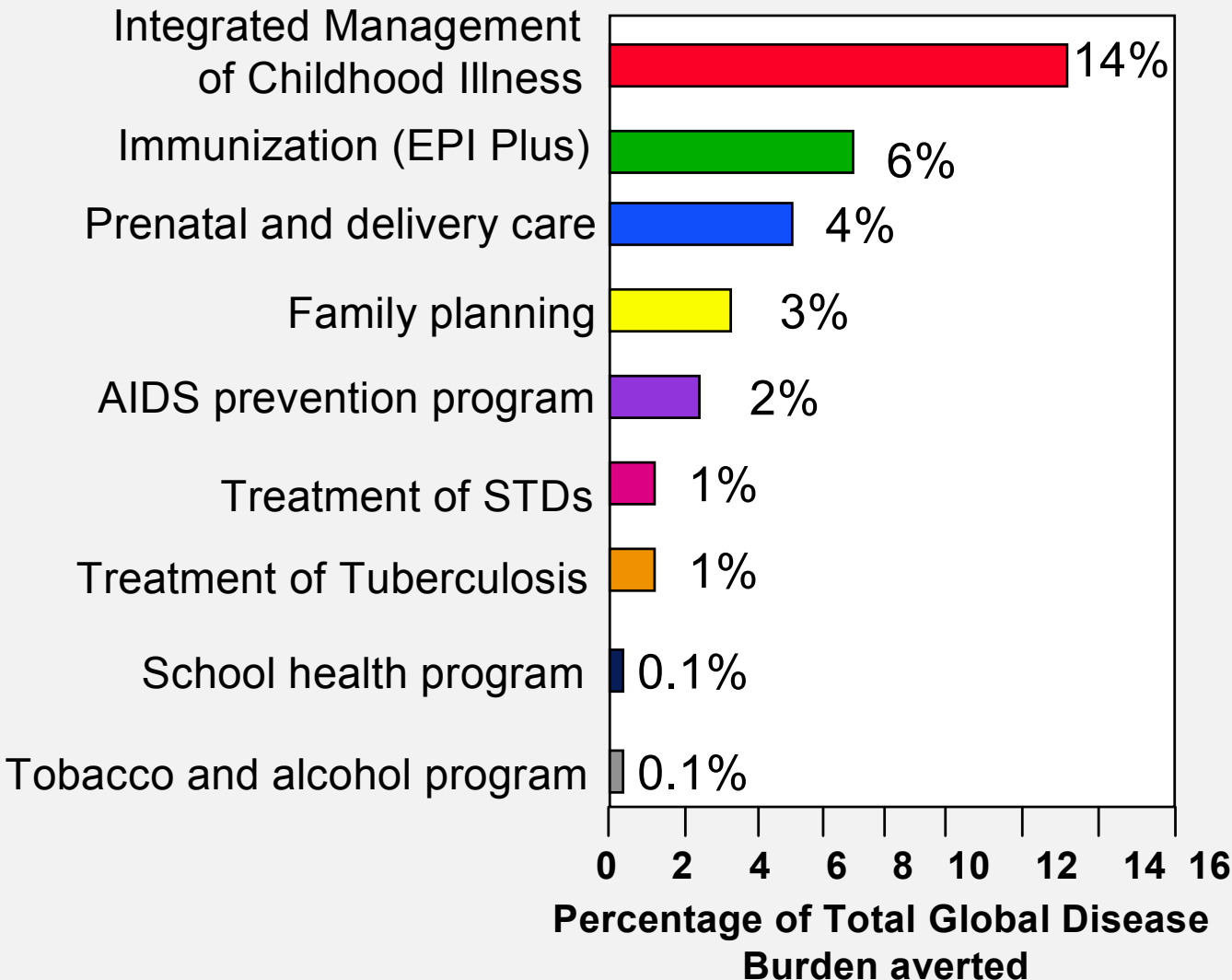
Asia 3.5%

Developed Countries 88.9%

# Estimating the Funding Gap

- Bottom up Costing
  - Anne Mills et al
- Marginal Budgeting for Bottlenecks
  - Agnes Soucat et al
- Production Frontiers
  - Alexander Preker et al
- Financial Modeling using Elasticities
  - Adam Wagstaff

# Bottom Up Costing

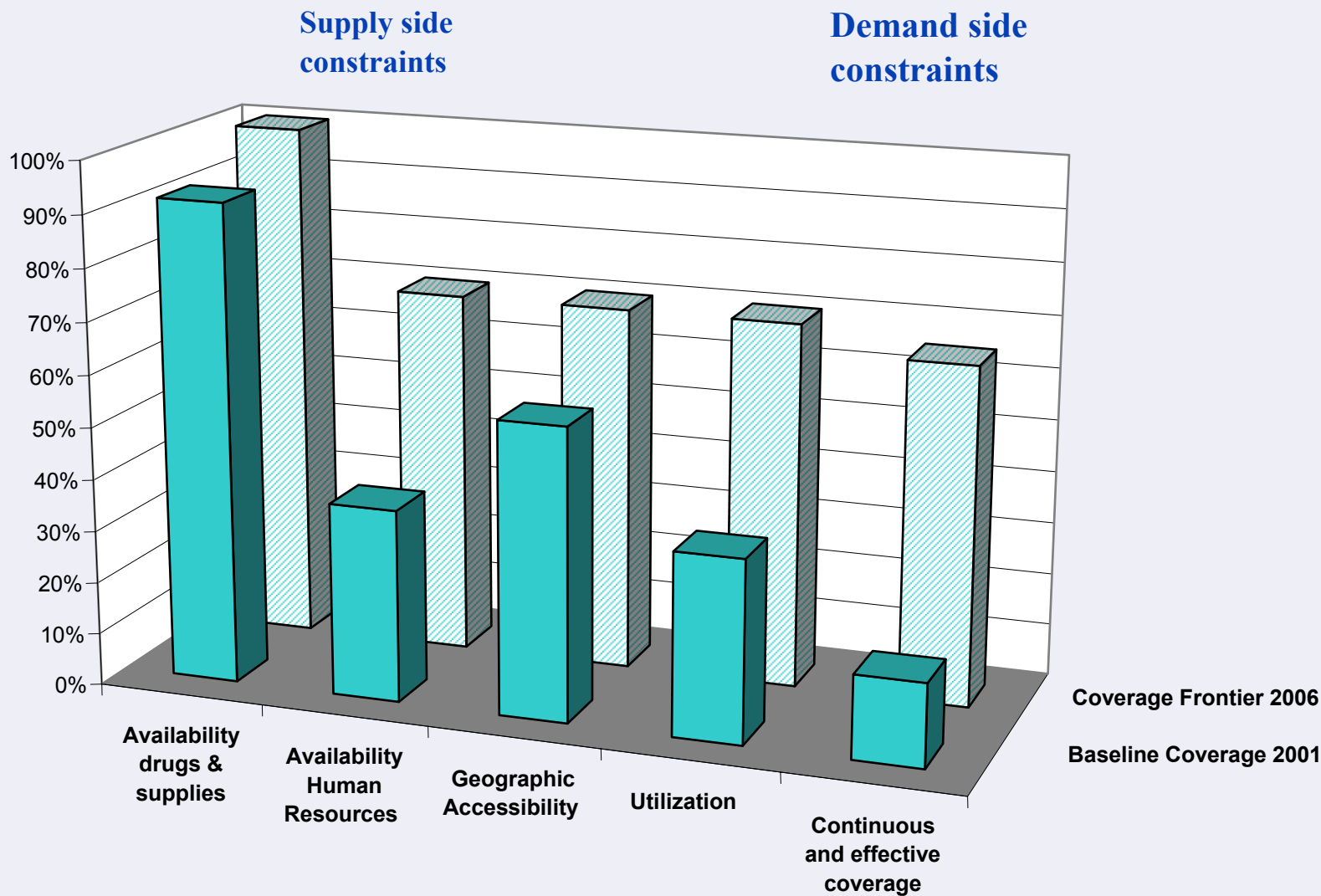


## Indicative Cost in US\$

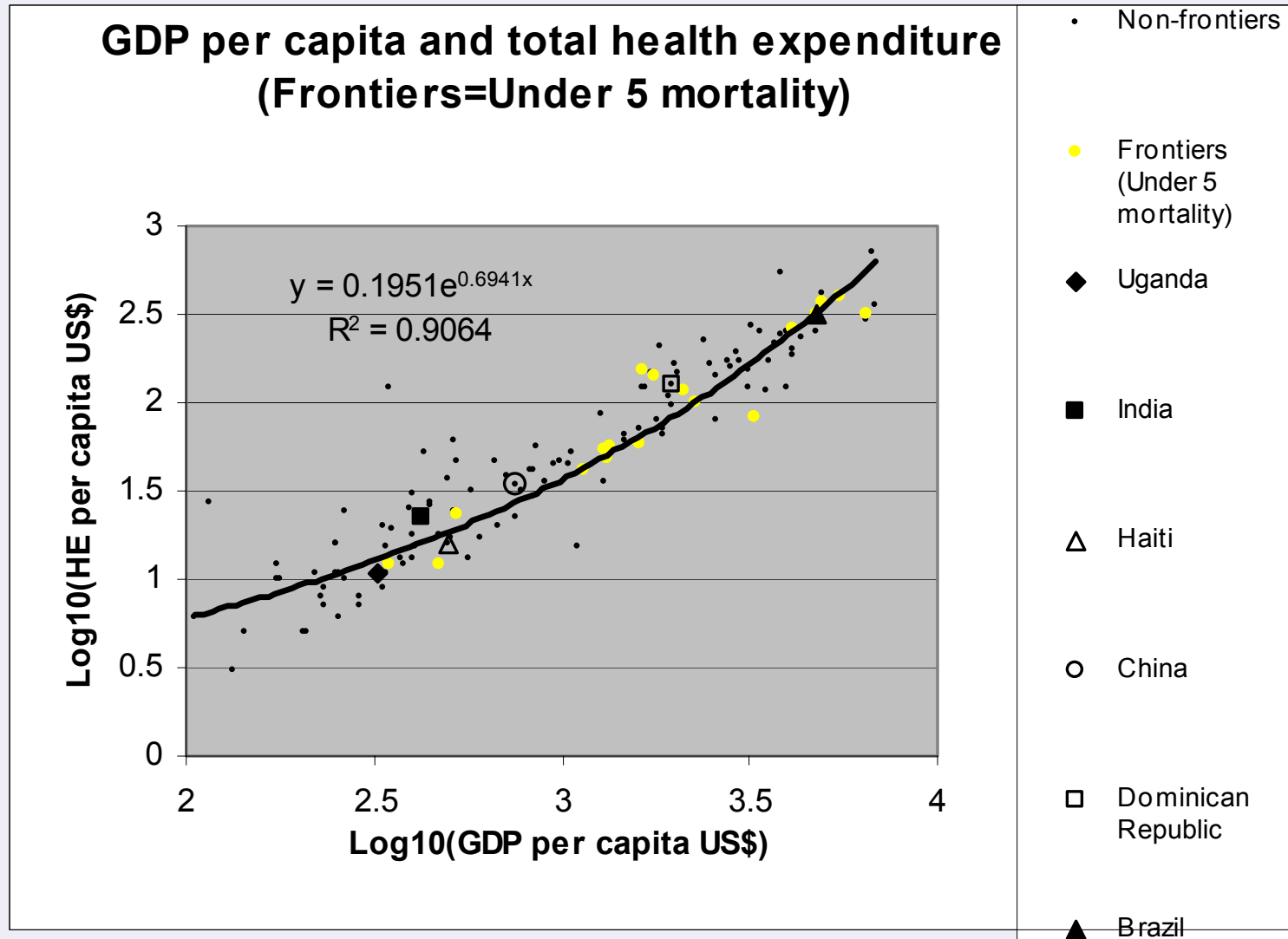
<b>40.00</b>	<b>1.60</b>
<b>14.50</b>	<b>0.50</b>
<b>40.00</b>	<b>3.80</b>
<b>25.00</b>	<b>0.90</b>
<b>4.00</b>	<b>1.70</b>
<b>2.00</b>	<b>0.20</b>
<b>4.00</b>	<b>0.60</b>
<b>22.50</b>	<b>0.30</b>
<b>42.50</b>	<b>0.30</b>

**Cost per DALY**      **Annual cost per capita**

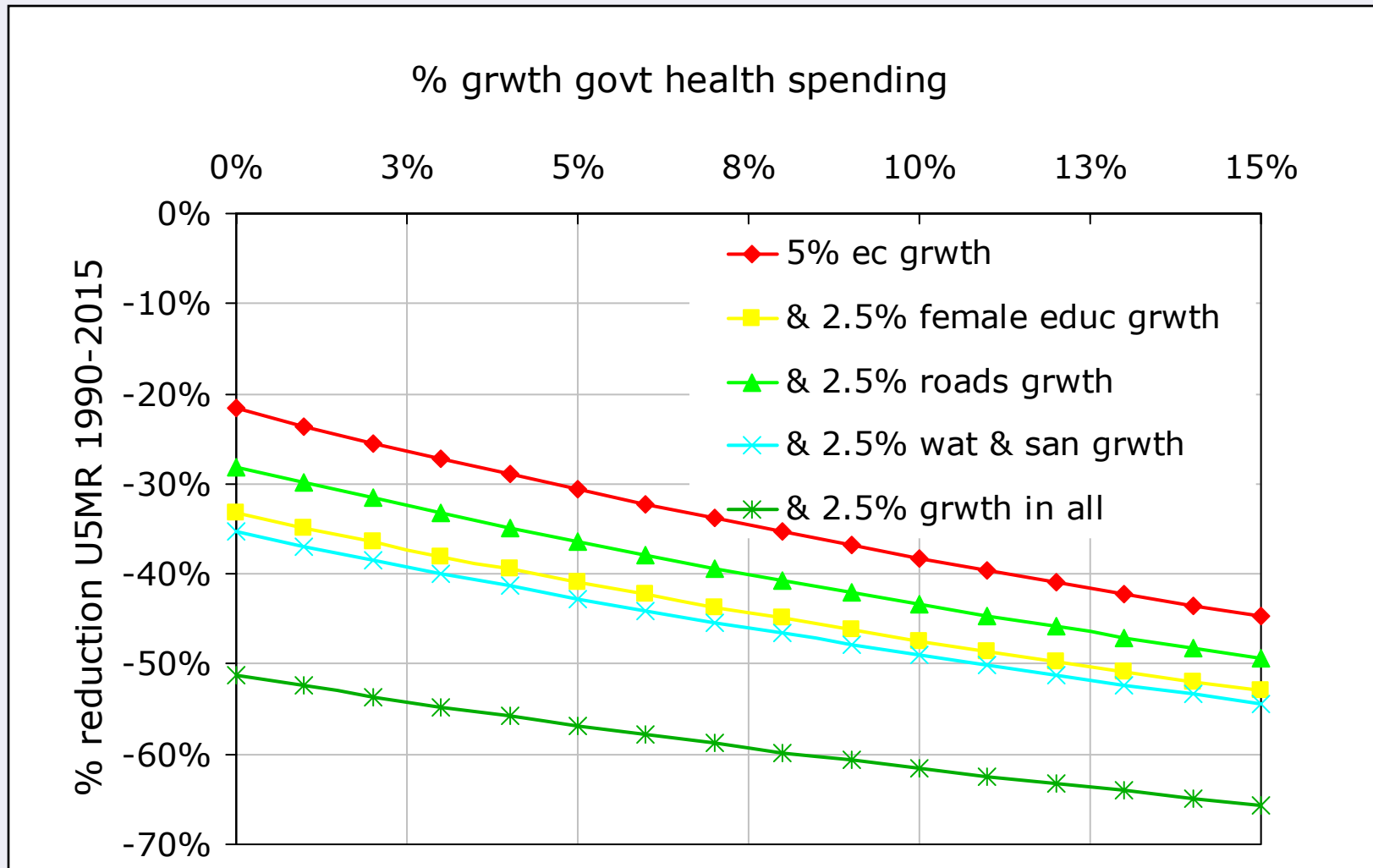
# Marginal Budgeting for Bottleneck Example from Mali



# Expenditure Frontier and Six Countries



# Investments Across Many Sectors is Vital in Achieving U5M MDG Targets



# Global Expenditure Gap To Reach the Health Related MDGs

**Table: US\$ (in millions) needed to be like frontiers of under 5 mortality**

		US\$ (in millions) needed to be like frontiers of:			
GDP per capita	Number of countries	Under 5 mortality			
		(Cut off at GDP 7000)	(Cut off at GDP 3000)	(Cut off at GDP 1000)	
0-300	16	\$1,284	\$1,284	\$1,284	
300-1000	39	\$1,862	\$1,862	\$1,862	
1000-3000	31	\$7,590	\$7,590	\$1,931 *	
3000-7000	30	\$52,044	\$16,297 *		
7000+	38	\$114			
<b>Sum</b>	<b>154</b>	<b>\$62,895</b>	<b>\$27,034</b>	<b>\$5,078</b>	

\* GDP of that category and above

# Possible Strategies for Mobilizing More Resources

- Domestic Growth and National Commitment
- The International Development Community
- The Private Sector

# Would Economic Growth Help?

**Yes!**

A 2.5 percent GDP Growth Rate  
= **US\$ 7 Billion**

# But Growth is Not Enough

	Poverty Headcount % living on less than 1/day		Primary Education Enrollment %		Infant Mortality per 1000	
	Target	2015 Growth alone	Target	2015 Growth alone	Target	2015 Growth alone
<b>EAST ASIA</b>	14	3	100	100	14	33
<b>ECA</b>	1	1	100	100	9	22
<b>LAC</b>	8	7	100	100	14	30
<b>MENA</b>	1	1	100	92	20	46
<b>SA</b>	22	18	100	87	29	70
<b>AFRICA</b>	24	40	100	64	33	87

# Would a Shift of Public Money to the Health Sector Help?

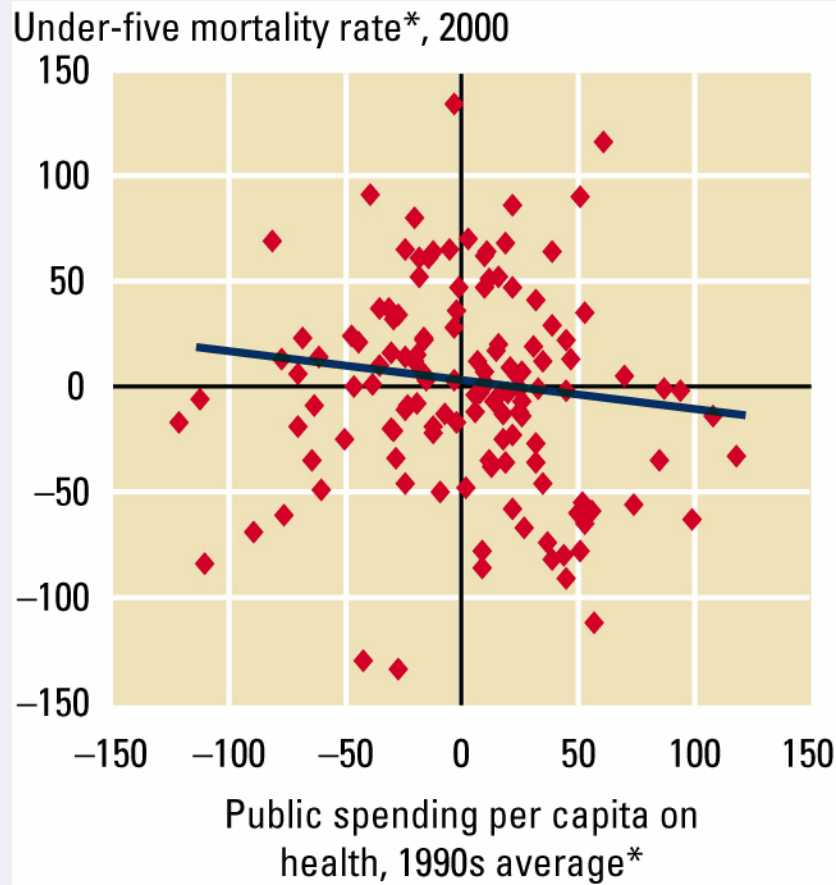
**Yes!**

**Many Low Income Countries Spend Less  
that 2 percent of GDP  
On Health Care**

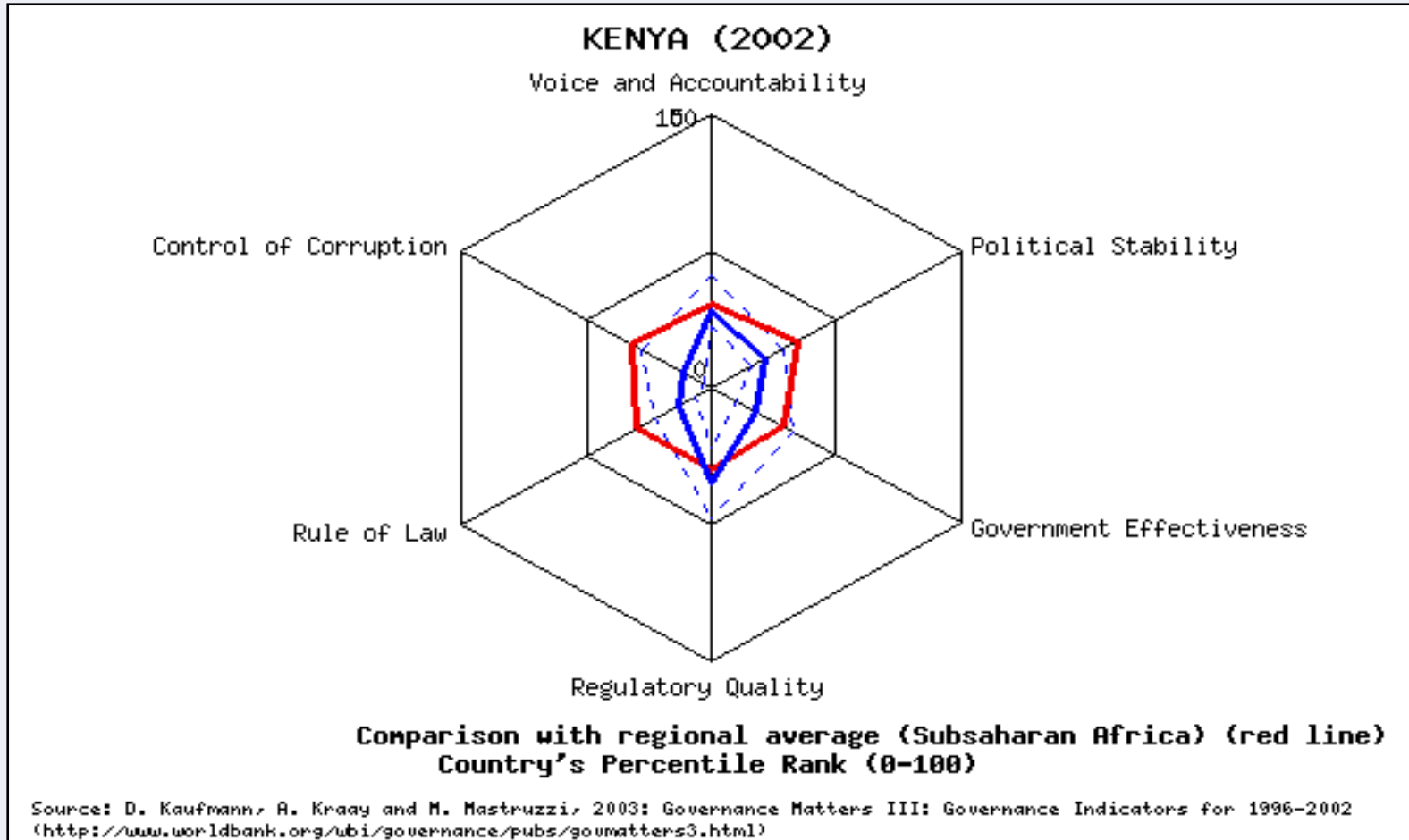
**While More than 10 percent of GDP  
On Military Expenditure**

**A 5 percent Shift to Health Spending =  
US\$ 14 Billion**

# But More Public Spending Alone Is Not Enough



# KKZ Index: Governance in Kenya Relative to Regional Average



**Red Line:** SSA Regional Average **Blue Line:** Kenya

Source: Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2003: Governance Matters III: Governance Indicators for 1996-2002. Website: <http://info.worldbank.org/governance/kkz2002/govmap.asp>

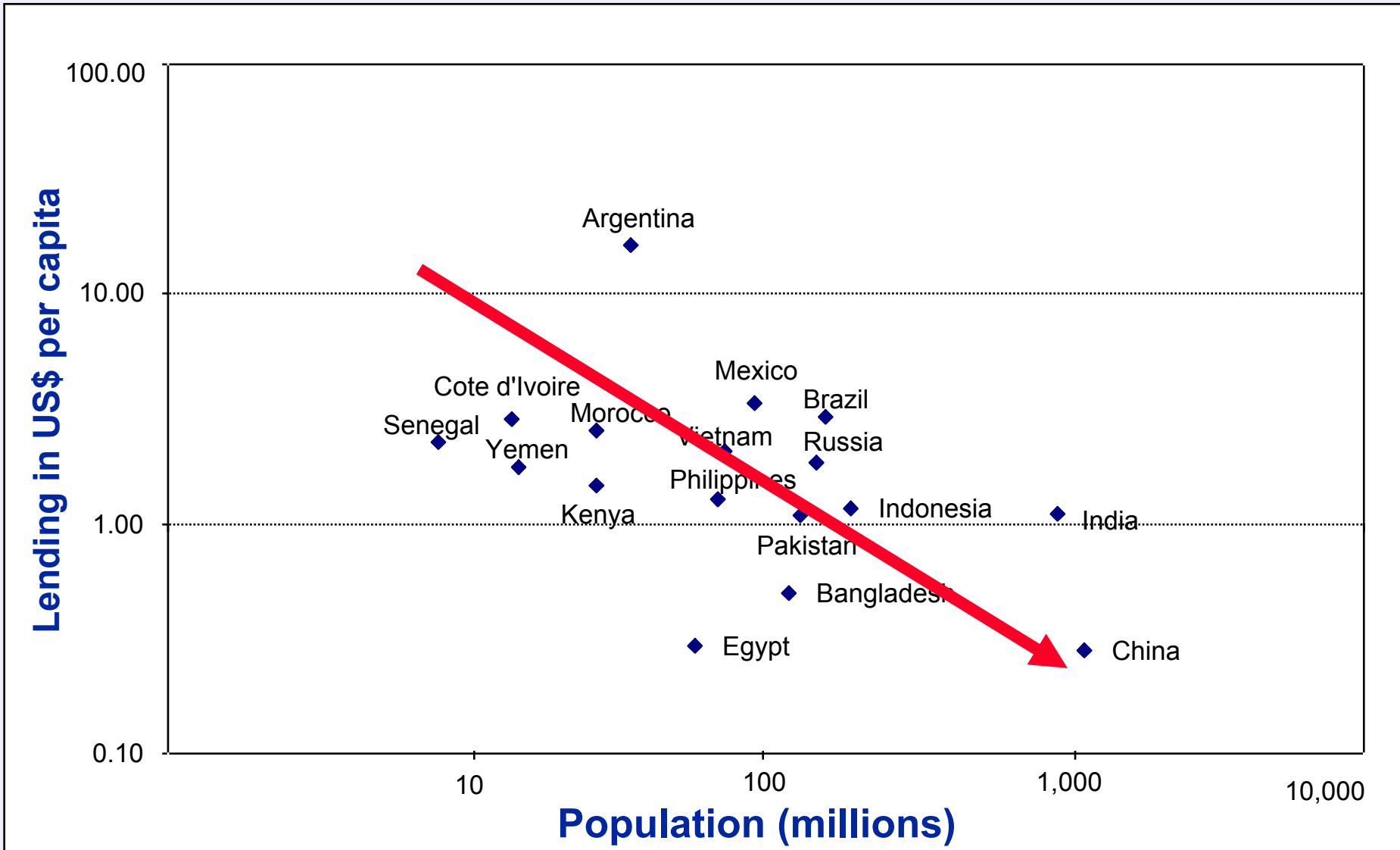
# Would More Donor Aid Help?

**Yes!**

Total ODA on Health = **US\$ 6 – 7  
Billion**

A 75 percent Increase in ODA  
= **US\$ 4.5 Billion**

# But in Many Countries This is not a Lot of Money



# Sub Total So Far

- Domestic Sources -  $7 + 14 = 21.0$  billion
- Donor Aid = 4.5 billion
- Subtotal 25.5 billion
- Remaining Funding Gap **35.0 Billion**

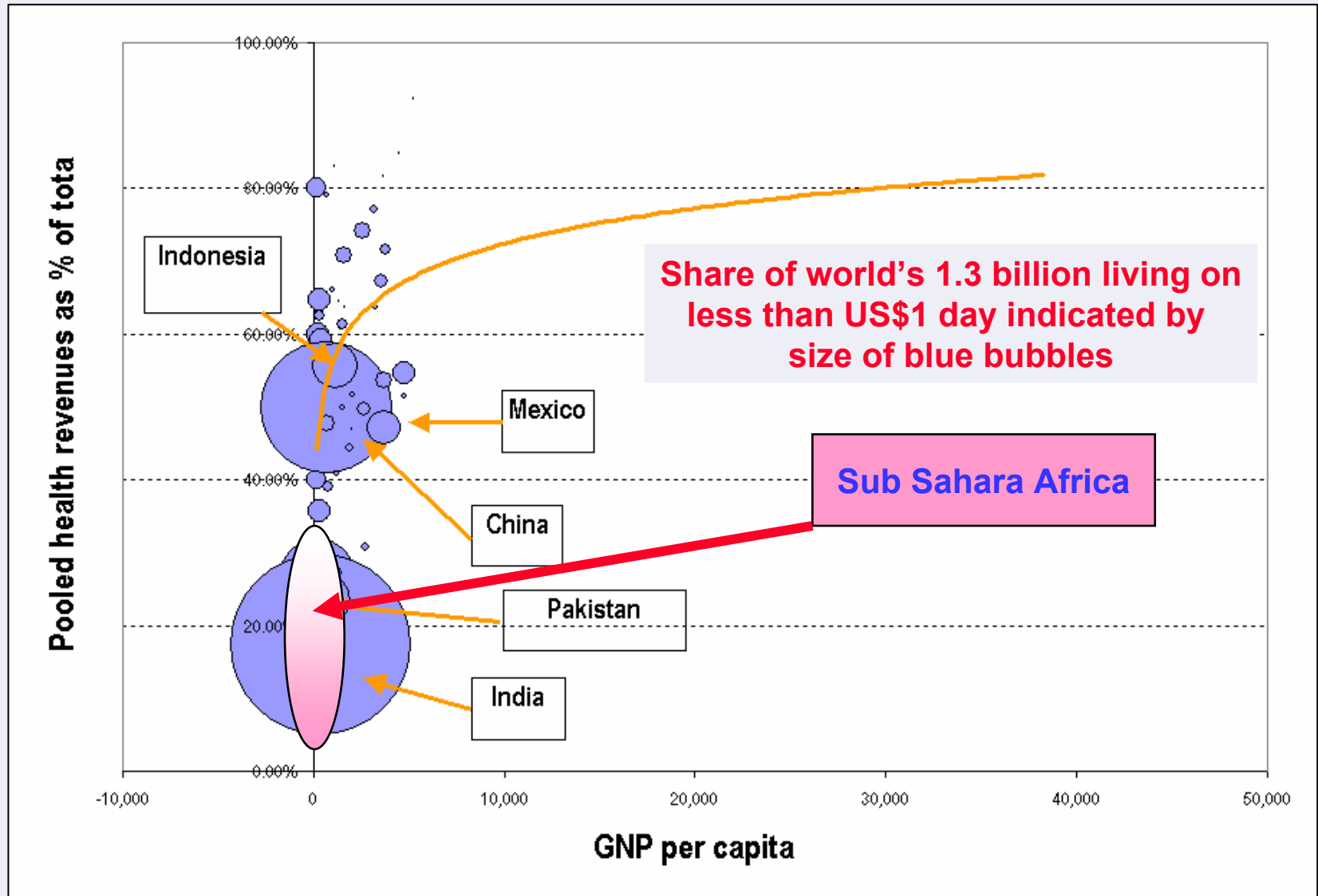
# Would Better use of Private Financing Help?

**Yes!**

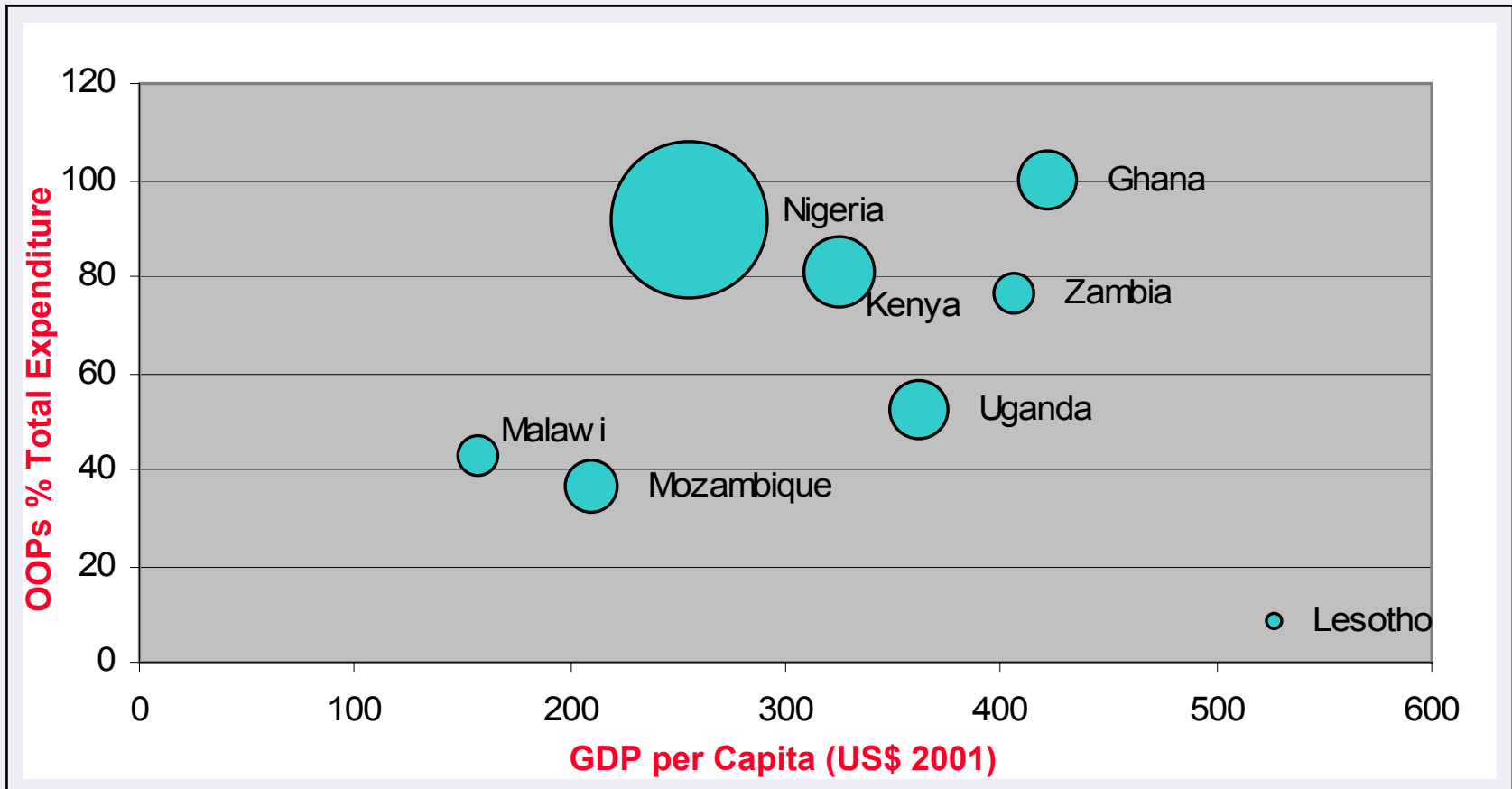
In many low income countries  
private finance of health care =

50-80 percent of total expenditure =  
**US\$140 Billion**

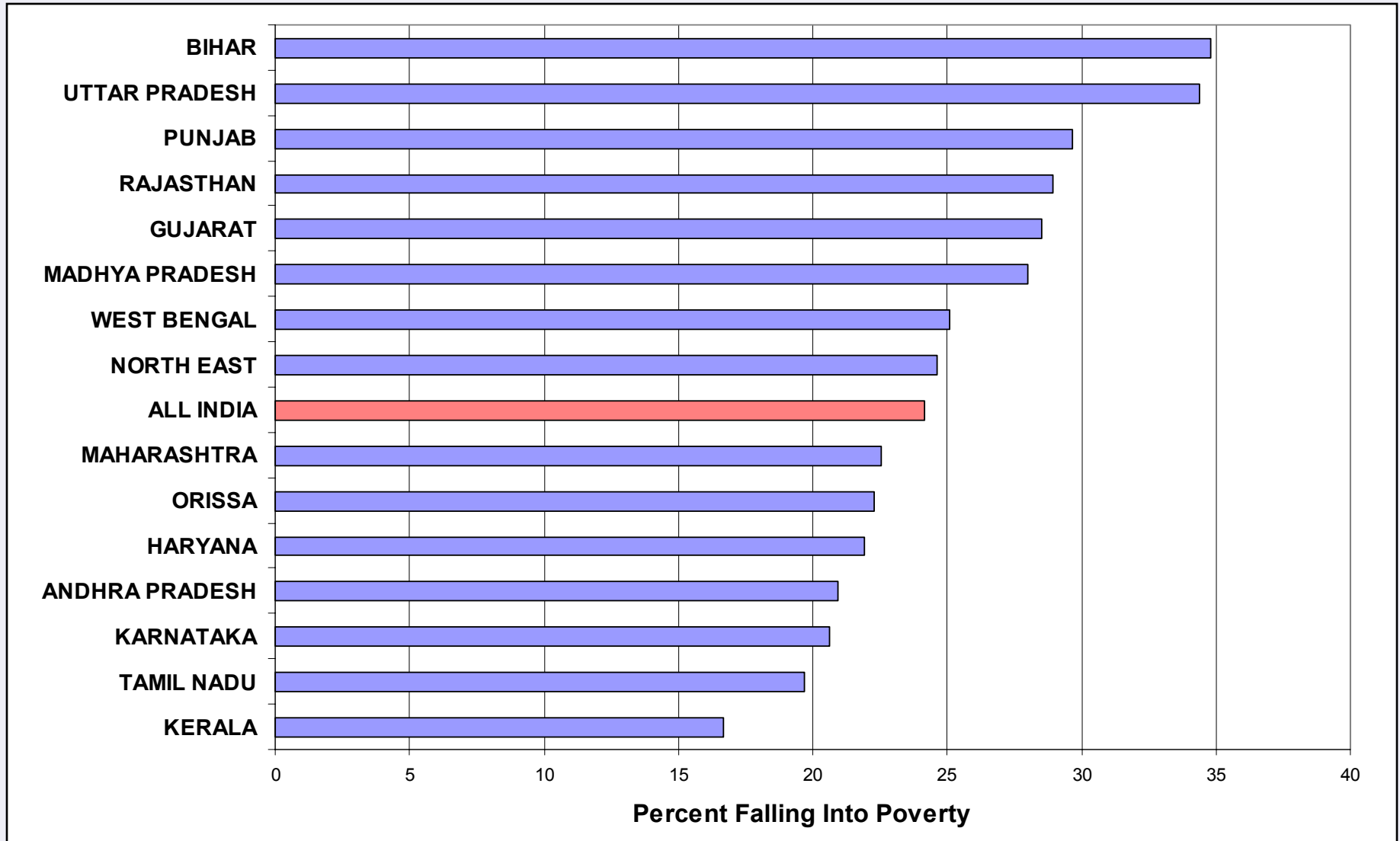
# But Low Income Countries Have Less Insurance



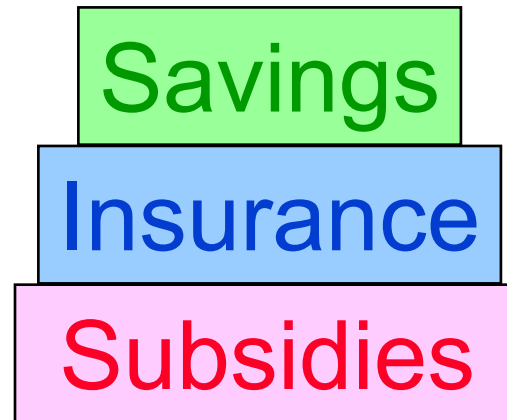
# The Largest Share of Private Spending Is Out-of-Pocket



# Percent Impoverishment During First Contact with Public Hospitals



# Away From Once Size Fits All Towards a New Multi-pillar Approach



# Conclusion

Even in countries with a tax funded national health service

There is a role for insurance to:

- Mobilize additional money
- Protect against financial risk
- Secure access to better care