



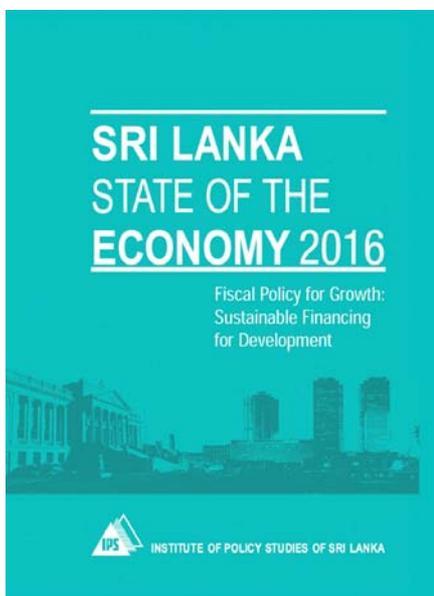
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POLICYINSIGHTS

INSTITUTE OF POLICY STUDIES OF SRI LANKA

HEALTH CARE FINANCING IN SRI LANKA: CHALLENGES AND ALTERNATIVES

From the IPS Flagship Publication 'Sri Lanka: State of the Economy 2016 Report'



Health is a crucial input into economic development and poverty reduction. The levels and distribution of health outcomes can be regarded as a key indicator of the inclusiveness of a country's economic growth; they also often serve as proxies for a government's concern for all its citizens. By and large, Sri Lanka's health sector has contributed to the country's economic development, recording progress in achieving health indicators and maintaining their status. The health status depicted by such indicators places Sri Lanka at a more advanced position than many of its developing country regional counterparts, and in par with developed countries. Sri Lanka's considerable health sector achievements are financed through a combination of general taxation and out-of-pocket payments by households.

Models of Health Care Financing

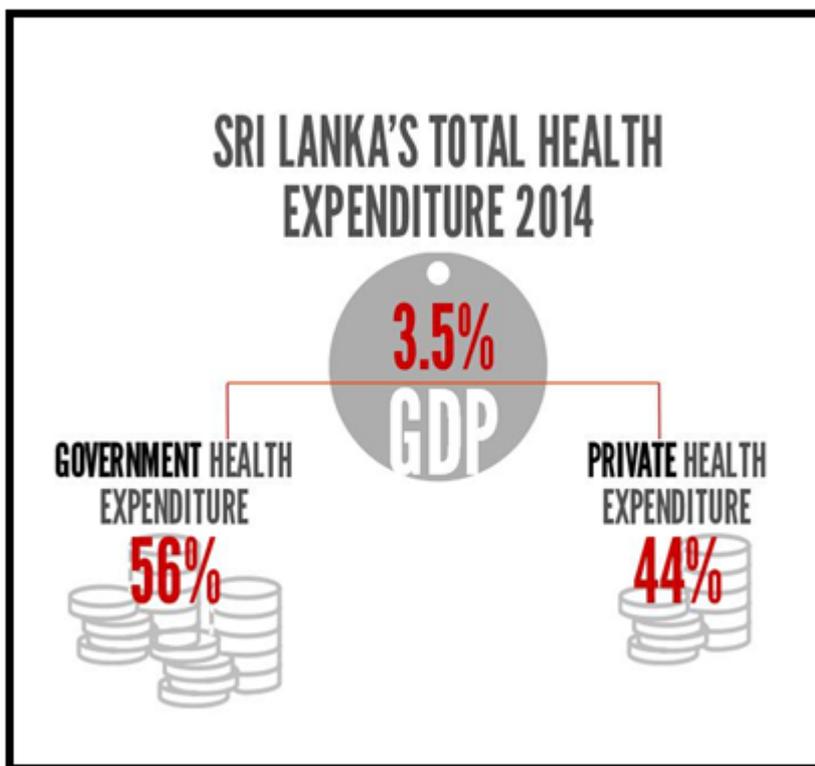
In general, health care financing refers to the ways in which money is generated to pay for health services. There is a wide variety of health care systems around the world. These can be categorized into four main models: the Beveridge model, the Bismarck model, the national health insurance model, and the out-of-pocket model.

There are different sources of funding these health care systems. Most typically, the five primary methods of funding are: (i) general

taxation to the state, county or municipality; (ii) social health insurance (iii) voluntary or private health insurance (iv) out-of-pocket payments; and (v) donations to charities.

Sri Lanka's Health Care System

Sri Lanka has a pluralistic system of care with many people utilizing a combination of systems but by far, the dominant system is the Western system of care. The health system in Sri Lanka consists of public and private health care services, but the government plays the major role as the health care provider of the country. While



“In view of changing demographic and epidemiological patterns and economic context, it is questionable whether Sri Lanka will be able to finance health sector needs in a sustainable manner under the present financing system.”

Sri Lanka has a free health care system based on the principle of citizenship, it does not meet the quality health needs of all people - a fundamental requirement of a universal health care system. Universal health coverage (UHC) is defined as all people receiving quality health services that meet their needs without being exposed to financial hardship in paying for the services.

Health Care Financing in Sri Lanka

Sri Lanka's health care financing strategy is essentially a combination of two resource mobilization methods; (1) general taxation and (2) out-of-pocket payments by households.

Sri Lanka's TEH as a percentage of GDP has hovered around 3-4% with a decline in more recent years. Whilst health expenditure is comparable with that of other lower middle income economies, the amount of money allocated for spending is not adequate in the context of changing disease patterns which is more similar to a high income economy.

The Need for Alternative Financing Mechanisms

Sri Lanka's health care expenditure is likely to increase in the future owing to: (i) increased demand for more expensive treatments; with rising income levels along the transition to middle income status, there

will be greater demand for more expensive treatments and higher service quality requiring more financial resources to be allocated; (ii) meeting health needs of an aging population; and (iii) the increase in non-communicable diseases (NCDs) related to an epidemiological transition.

Existing Gaps in Health Care Financing

The most critical gaps in Sri Lanka's current system of health care financing are: (i) inadequacy of resource mobilization; (ii) allocative inefficiency in the distribution of health care provision outcomes amongst the population; and (iii) weaknesses in financial management.

Towards a Sustainable Health Care Financing System and Alternative Mechanisms

Various innovative and alternative health financing methods ranging from market-based systems to government financed systems, from community funded to donor funded systems are to be found in practice. Of these alternatives, more focus is paid to four options - Private Public Partnerships (PPPs), Social Health Insurance (SHI), Community Based Health Insurance (CBHI), and User Fees - to assess their possible benefits and potential to be

“Sustainable health care financing allows a country to secure sufficient resources; enables improvements in the effectiveness of health care; allows resources to be used effectively and efficiently to meet health needs to carry out these functions on a continuous basis, and to perform them with minimum external inputs.”

adapting in Sri Lanka's context. These mechanisms are some financial policy options available for Sri Lanka.

Given the demographic and epidemiological transitions taking place in the country, and gaps in the existing health care financing mechanism, Sri Lanka has to look for alternative financial mechanisms. Experiences from other countries show that a combination of alternative financing options can result in positive outcomes while addressing market failures as well. The available options have to be analyzed comprehensively considering the socio-economic context and the political economy of the country and have to be implemented with the aim of achieving Sri Lanka health objectives and ensure universal health care coverage.

This Policy Insight is based on the comprehensive chapter on Health Care Financing in Sri Lanka: Challenges and Alternatives in the 'Sri Lanka: State of the Economy 2016 Report' (SOE 2016). The State of the Economy Report is the flagship publication of the Institute of Policy Studies of Sri Lanka (IPS). The complete report can be purchased from the publications section of the IPS, located at 100/20, Independence Avenue, Colombo 7. For more information, contact the Publications Unit on 0112143107/0112143100.



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