

**61<sup>st</sup> World Health Assembly**  
**Geneva, 21<sup>st</sup> May 2008.**



**Models of Medicines financing: Lessons  
learned to improve access to medicines**

# This paper provides:

- A description of four models of financing medicines.
- A comparative assessment of four medicines financing systems based on the principles of equity, affordability and delivery of essential medicines.

# **Two Problems related to medicines financing which restrict access to medicines in developing countries:**

- Limited Resources**
- Inequity**

# The objectives of increasing access to medicines are two fold:

- **Equity** -

Reducing inequalities in ways that improve the situation of the worst off.

- **Sustainability** -

Ensuring that all the people have regular access to medicines.

Equitable and sustainable access to medicines can be achieved through appropriate medicines financing mechanisms designed and based on the three cardinal principles.

- Equity
- Affordability
- Delivery of essential medicines

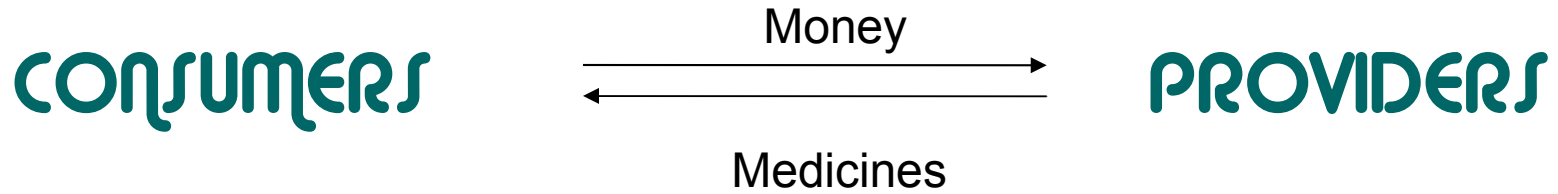


# Four **basic alternative models** for financing medicines.

- Direct out of pocket payments by house holds
- General taxation
- Mandated social health insurance
- Voluntary private or commercial health insurance



# Direct out of pocket payments



# Lessons from 16 OECD countries:

- 15 of the 16 countries (US is the exception) finance medicine either by general taxation or social health insurance. These account for over 70% of the total medicine budget.
- Out-of-pocket payment varies from 8 to 24 percent of the total expenses in the 15 countries.
- Voluntary private health insurance accounts for less than 10 percent of the total expense in 14 countries.

Source: 1. US and Norway: OECD Data base

2. All other countries: Health Budget, Gesundheitsysteme im internationalen Vergleich, Ausgabe, Germany

## *Direct out of pocket payments cont...*

- ***Advantages***

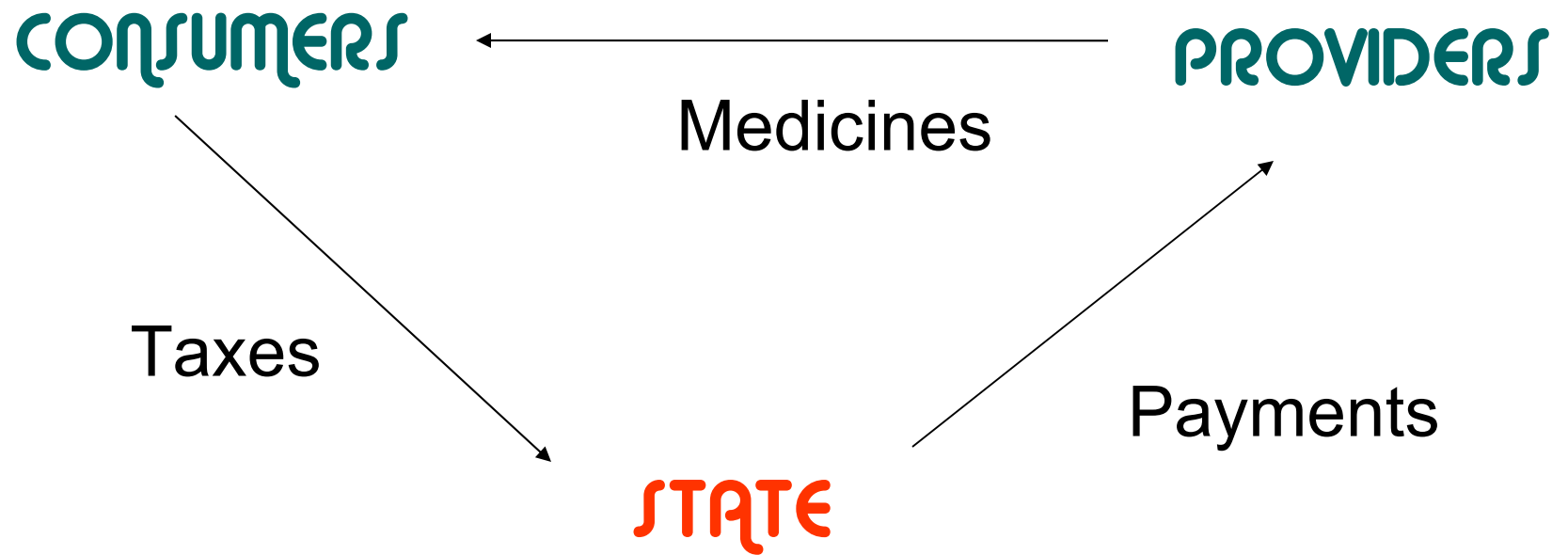
- satisfies patient demand
- increases availability of medicines stocks

- ***Limitations***

- restricts access to medicines



# General taxation



## *General taxation cont...*

### • **Advantages**

- Promotes sustainable and equitable access to medicines as medicines are **provided free of charge at the point of delivery.**

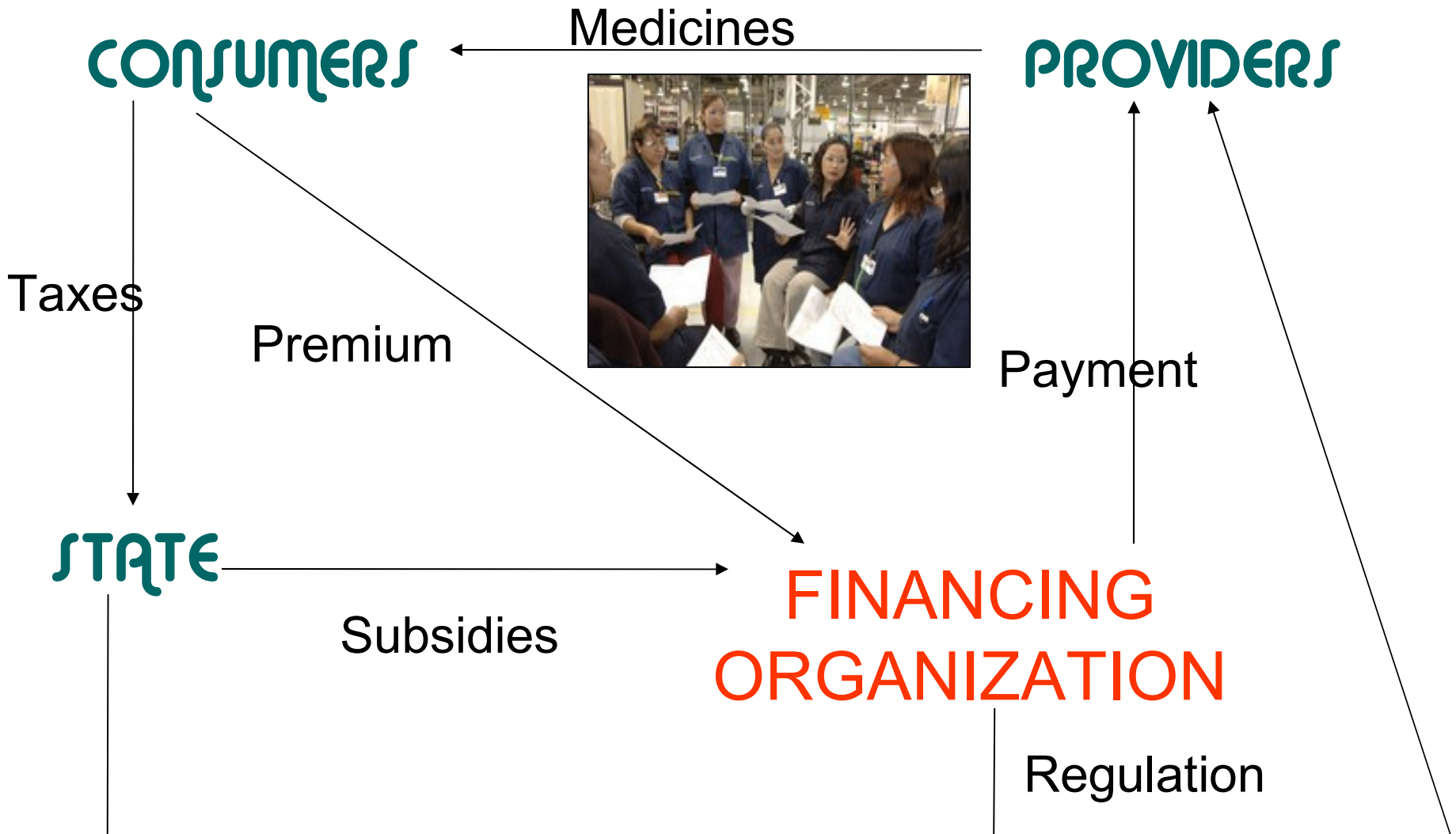
This model introduces the following important concepts:

- Prepayment or contribution - Payment is made regularly irrespective of whether services are used
- Pooling of funds
- Cross-subsidizing
- Sharing of risks

### • **Limitations**

- Amount of state financing or external aid may fluctuate, thus risking stock shortages.

# Mandated Social Insurance



## *Mandated Social Insurance cont...*

- **Advantages**

- Adequate stocks are always available.
- Promotes sustainable and equitable access to medicines as medicines are provided free of charge at the point of delivery.

This model encompasses the important concepts of;

- Prepayment or contribution. Payment is made regularly irrespective of whether services are used or not;
- Pooling of funds;
- Cross-subsidizing; and
- Sharing of risks

- **Limitations**

- Risk of adverse selection (only ill persons may agree to pay)
- Difficult for the prepayment agency to know the level of consumption that is essential.

# Voluntary private or commercial health insurance



CONSUMERS

PROVIDERS

Medicines

Premiums

Payments

Private  
Insurance  
Company

## *Commercial health insurance cont...*

- ***Advantages***

- Satisfies patient demand
- Increases availability of medicines stocks

- ***Limitations***

- Restricts access to medicines



# Conclusions and Recommendations

<b>Medicines Financing Mechanism</b>	<b>Equity</b>	<b>Affordability of Medicines</b>	<b>Delivery of Essential Medicines</b>
<b>Out-of-pocket payment</b>	The most regressive form of financing medicines (WHO).	Market prices will vary. The affordability may depend on prescription patterns.	There is no requirement to adhere to a list of essential medicines when procuring drugs as there are multiple providers in the market.
<b>General taxation</b>	Regular access to medicines to all individuals is assured as medicines may be delivered free of charge at the point of delivery	As the state provides funds for medicines, there is the potential for regulation of prices and availability medicines	EML can be implemented and updated regularly
<b>Compulsory Social Health Insurance</b>	Medicines may be delivered free of charge at the point of delivery ensuring regular access to medicines.	State regulation of prices and availability of medicines is mandatory in this method	EML can be implemented and updated regularly.
<b>Voluntary private health insurance</b>	“cream-skimming” i.e. exclusion of the very people in need of medicines.	Prices are not regulated. Affordability of the medicines are determined not by medical need but by ability to pay.	There is no list of essential medicines and it gives rise to irrational and uneconomical use of medicines.

- General taxation, compulsory social insurance premiums or a suitable combination of both particularly in low income countries, would provide for a single payer system in a country to pool the risks and redistribute incomes from the healthy, young and high income groups to the unhealthy, old and low income groups.
- Private health insurance and out-of-pocket payment are not viable options for financing medicines in developing countries.

- The most important function of the State is regulation. Formulation and implementation of statutory legislation related to financing methods, organization and functioning of the financing organization and a central budget have been the key features of a successful financing system.
- Controlling expenditures on medicines while providing universal coverage and equal access to medicines has not been achieved through market mechanisms in the more affluent countries.

# Thank You

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