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LOCAL HEALTH SYSTEM SUSTAINABILITY PROJECT

STRATEGIES TO INCREASE BUDGETARY SPACE FOR HEALTH IN VIETNAM

POLICY BRIEF

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1. Context

The Government of Vietnam has approved its National Finance Strategy for 2021–2030 to increase government revenue and meet growing social needs. This includes health sector needs, which are rising due to a growing disease burden and the increasing benefit package costs and hospital reimbursement rates under the social health insurance scheme.

However, the proportion of state recurrent expenditure for health has decreased from 14.9 percent of total health expenditure in 2017 (44,201 billion Vietnamese Dong (VND)) to 8.3 percent (31,809 billion VND) in 2019. Despite increases in financial protection for households—primarily through increased social health insurance coverage—out-of-pocket spending as a percentage of recurrent health spending remained high in 2019, at 45 percent[1]. Concurrently, Vietnam's access to external financing for health is diminishing. There is a clear need to increase domestic budgetary space for health—the total potential resources budgeted and used for health through the public financial management system.

Adequate health sector budgeting depends on the public budget size, which is largely determined by macro-fiscal considerations, the budget share allocated to health, and the efficiency of resource use, including public financial management—the laws, rules, and systems for budget use. Figure 1 illustrates this.

International experience suggests that the best source of additional budgetary space for health is increasing tax revenues. Reprioritizing the budget and improving technical efficiency, including improving provider payment systems and public financial management, can also make a significant contribution. The Local Health System Strengthening (LHSS) Activity in Vietnam examined ways in which Vietnam could use all three of these strategies to expand and more effectively use available resources for health. This policy brief summarizes the findings and recommendations.

Photo Source: Kinhte Moitruong

[1] Ministry of Health, 2022. Data from National Health Account 2017-2019

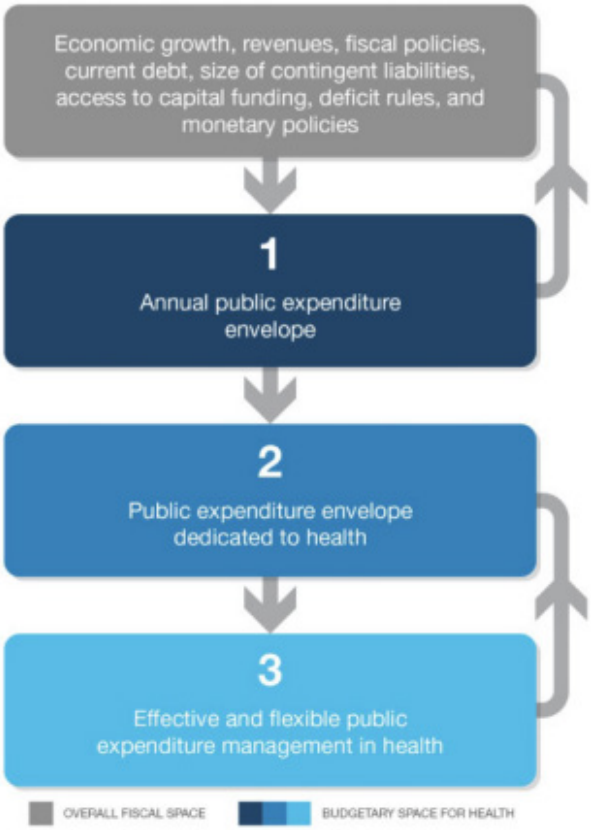

Figure 1 Connecting macro-fiscal environment, budget priority and PFM

Source: Fifteen years later: moving forward Heller's heritage on fiscal space for health (Barroy and Gupta 2021).

2. Create Additional Budgetary Space for Health Through Excise Tax Reform

Excise taxes can correct for market and individual failures to fully account for the costs of using goods that can have harmful health impacts, such as fossil fuels, sugar-sweetened beverages, alcohol, and tobacco. To inform potential amendments to the excise tax law during the National Assembly 2023 session, LHSS Vietnam reviewed existing tobacco and alcohol excise taxes and a potential new tax on sugar-sweetened beverages. The review included a modeling exercise to estimate increased revenue contributions from reformed tax rates and structures.

Key Findings

Excise tax reform would yield significant revenue, some of which could be allocated to health. Using the World Health Organization's Tobacco Tax Simulation Model, LHSS modeled three tax reform scenarios.[2] The estimated results show that all proposed scenarios would increase revenue from 2023 through 2025. Raising existing tobacco tax rates could generate an additional VND 5,149 billion (US$ 225 million) and raising existing alcohol tax rates could generate an additional VND 7,205 billion (US$ 314 million). By adjusting the tobacco tax structure to include a specific tax in addition to the current ad valorem tax, the potential additional revenue could be as high as VND 18,031 (US$786 million). Not only would the revenue be higher, but these changes to tax rates and structure would also realize the pro-health intention of the taxes by lowering the consumption of tobacco and alcohol. In the case of tobacco, this would lower the prevalence of smoking among men by 5 percentage points, down to the Prime Minister's expressed target of 39 percent. Finally, the introduction of a sugar-sweetened beverage tax could raise at least VND 2,450 (US$ 107 million) in revenue over 2023–2025, according to model estimates.

Recommendations

Reform pro-health excise taxes, including ad valorem tax rates and tax structure, to increase revenue and efficiency. The results from the analysis recommend that excise tax rates be indexed to inflation to protect revenues from devaluation. In addition, the tax structure should be changed over time to a mixed structure by introducing and then increasing a specific tax component that produces more stable revenue than the current ad valorem tax. Finally, introducing mandatory routine rate and structure reviews via legalization or law reform will ensure that income

[2] The three tax reform scenarios modeled were: 1) an ad valorem tax rate increase of 5 percentage points in 2023 and 5 percentage points in 2025; 2) a change in tax structure to a simple mixed system consisting of an ad valorem tax maintained at the baseline rate of 75 percent and a specific tax of VND 2,000 (US$0.09) per cigarette pack; and 3) a change in tax structure to an enhanced mixed system, consisting of an ad valorem tax maintained at the baseline rate of 75 percent and a specific tax of VND 2,500 (US$0.11) per cigarette pack for 2023 and then increased to 5,000 (US$0.22) per cigarette pack in 2025.

growth does not outpace tax rates and will respond to other structural issues.

Promote the acceptability of pro-health excise tax increases by collating and presenting economic and health impact data in partnership with recognized thought leaders. Successful collaboration with cross-sectoral stakeholders is critical to successfully introducing and passing excise tax reform. Ministry of Health (MOH) policymakers should conduct a political economy analysis to inform evidence-based advocacy efforts in support of pro-health excise tax increases and the introduction of an SSB tax. Advocacy efforts should effectively communicate:

- The revenue gains from increased taxes
- The potential health gains, namely the decrease in unhealthy consumption levels of tobacco, alcohol, and sugar-sweetened beverages
- The potential impact on the industry

3. Improve Public Expenditure Management Through Budget Process Reforms

Budgeting is the process of strategically allocating public resources to produce the best outputs given the level of revenue. In Vietnam, the state budget plays a critical role in protecting public health and ensuring equity in health care. At the central level, the MOH estimates the budget for health, while at the local level, the provincial governments estimate the health budget according to national and local priorities. LHSS Vietnam reviewed the budgeting process for the health sector to develop potential strategies for improving the process to align with national health sector priorities and improve public expenditure management, ultimately increasing budgetary space for health.

Key Findings

Budget processes lack coordination and unification, resulting in overlapping responsibilities and a lack of alignment on priorities across various stakeholders. For example, the integrated state budget system results in overlapping authorities across levels and complicated budgeting procedures. The health budget is split between the MOH and local units, so the MOH cannot maintain a unified system. Coordination between programs, goals, and technical activities with different funding sources can therefore be difficult, resulting in allocations that are not well aligned with national health priorities. Another challenge is the misalignment between the estimated budgets for investment and recurrent spending. The Ministry of Planning and Investment estimates the budget for investment expenditure, while the Ministry of Finance estimates and allocates the recurrent expenditure budget. The responsibilities for reviewing and synthesizing budget estimates are not centralized, and estimated budgets for investment and recurrent spending are uncoordinated.

The allocation of state and central budgets remains mainly input-based. For hospitals, the budget is allocated based on the number of beds. This does not consider the quality of services provided and the outputs of healthcare activities. For disease prevention, the state budget is allocated by the number of staff rather than per capita of population. In contrast, the central budget to provinces is allocated based only on population size using cost norms per capita, which does not accurately reflect provincial needs and results in equity gaps.

There is no clear guidance regarding which financing sources should be used for various health services. For example, there is a lack of clarity regarding which services should be financed from the state budget, which from social health insurance, and which from out-of-pocket payments. This contributes to a lack of funding for disease prevention and public health, particularly at the grassroots level.

Recommendations

Amend the State Budget Law to help outline roles and responsibilities and eliminate duplication and misalignment. Such an amendment could give the MOH more authority to assign tasks concerning people's health care and protection by setting out in law the responsibilities of units and leaders in using the state budget to perform health care duties.

Revise budget line items (cost norms) and resource allocation methodologies. Rather than allocating budget to facilities based on inputs (e.g., number of hospital beds, number of staff), allocation methods could be based on outputs such as the number of individuals appropriately treated or the size of the population covered. This would create an incentive for improved quality of care and result in more equitable health budget allocations. LHSS suggests that allocations for the health budget give greater weight to preventive health care, grassroots care, medical facilities in disadvantaged areas, and under-funded diseases such as mental illness, leprosy, tuberculosis, and other chronic diseases. Current allocation methods result in large equity gaps across localities. Altering the allocation to ensure that disadvantaged, rural, and low-income areas receive increased funding would help to close these gaps.

Provide clear guidance regarding which financing sources should be used for which health services. This is particularly important at the grassroots level where there is a lack of funds for prevention and primary health care. LHSS suggests that the MOH consider developing a list of health services at each level of the system that clearly identifies and distinguishes services to be covered by the state budget, the health insurance fund, and out-of-pocket. Specifically, LHSS recommends that services funded from the state budget include health education and communication, population health management, disease screening, care of older persons, and environmental sanitation.

4. Enhance Financial Efficiencies Through Improvements to Provider Payment Systems

Provider payment is an important part of health care purchasing and has implications for the efficient use of existing resources and therefore for budgetary space for health. Vietnam currently uses a fee-for-service provider payment system—including for SHI, which incentivizes a high volume of procedures, services, and treatments rather than the quality of care provided, often resulting in unnecessary tests, over-prescription, and inefficient health spending.[3] To improve efficiency and align with World Bank recommendations, the MOH and Vietnam Social Security are transitioning to a diagnostic-related group (DRG) payment system for inpatient care reimbursement. If carefully designed and implemented, this payment reform will support more effective management, better resource use, and improved quality of care to meet the public's health care needs. To inform Vietnam's provider payment reforms, LHSS conducted an international literature review and an evaluation of Vietnam's current social health insurance contracting to provide recommendations for developing and revising the existing legal framework for contracts.

Key Findings

Contract provisions in current legal documents lack specificity, clarity, and key components. For example, contracts do not address accountability between parties, such as sanctions for late payment, and health insurance contracts lack mechanisms to monitor, supervise, and assess contract compliance. In addition, an absence of explicit regulations and monitoring mechanisms results in disputes between purchasing agencies and providers, leading to problematic performance, suboptimal contracts, and, ultimately, inefficiencies in resource use.

Vietnam's current prototype health care purchasing contract and regulatory framework were developed for fee-for-service payment. Contracts and regulations for DRG and capitation payment, as well as policies to regulate hospital behavior under incentives for DRG or capitation payment, are not fully developed and do not explicitly address the scope of services to be paid under DRG.

[3] The World Bank. *The Future of Health Financing in Vietnam: Ensuring Sufficiency, Efficiency, and Sustainability*. 2019.

Recommendations

Transitioning to a DRG provider payment method requires substantial changes to existing contractual legal requirements. Implementing these changes—summarized below—will facilitate a smooth payment reform process, ultimately resulting in increased financial efficiencies and freeing up additional budgetary space for health.

Develop contractual regulations and terms, including in the existing Health Insurance Law. LHSS recommends that the MOH work with Vietnam Social Security to develop and adjust contractual regulations to strengthen accountability mechanisms between the purchaser and provider, establish a clear and adequate legal framework for DRG payment and the contracting process, and outline processes for contract violations and disputes.

5. Conclusion

Redesigning pro-health taxes, strengthening government health expenditure planning, and maximizing financial efficiencies through provider payment reform are opportunities for the Government of Vietnam to create additional budgetary space for health. Pursuing excise tax reform and health budget changes would necessitate increased coordination between the MOF and MOH. These two strategies provide mutual benefits to the public finance and health sectors and offer an ideal opportunity for increased collaboration between the two sectors to achieve both national health and finance goals. The transition to value-based provider payment through provider payment mechanism reform (Capitation and DRG payments) offers a third avenue for strengthening efficiency in health spending.

Photo Source: Luat Vietnam

The Local Health System Sustainability Project (LHSS) under the United States Agency for International Development (USAID) Integrated Health Systems IDIQ helps low- and middle-income countries transition to sustainable, self-financed health systems as a means to support access to universal health coverage. The project works with partner countries and local stakeholders to reduce financial barriers to care and treatment, ensure equitable access to essential health services for all people, and improve the quality of health services. Led by Abt Associates, the five-year project will build local capacity to sustain strong health system performance, supporting countries on their journey to self-reliance and prosperity.

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