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Improving Primary Health Care Spending in Timor-Leste: Policy Brief

Local Health System Sustainability Project

March 2024

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The Local Health System Sustainability Project (LHSS) under the 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 Global LLC, the five-year project will build local capacity to sustain strong health system performance, supporting countries on their journey to self-reliance and prosperity.

Recommended Citation: Pinto, Lourenco, Julia Watson, Bhavesh Jain. The Local Health System Sustainability Project (LHSS) under the USAID Integrated Health Systems IDIQ. March 2024. *Improving Primary Health Care Spending in Timor-Leste: Policy Brief.* Rockville, MD: Abt Global LLC.

Date: March 2024

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USAID Contract No: 7200AA18D00023 / 7200AA19F00014

This publication was produced for review by the United States Agency for International Development (USAID). It was prepared with support from the Local Health System Sustainability Project under the USAID Integrated Health Systems IDIQ.

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ACRONYMS

ESP	Essential Service Package
GHE	Government Health Expenditure
MOF	Ministry of Finance
MOH	Ministry of Health
PFM	Public Finance Management
PHC	Primary Health Care
UHC	Universal Health Coverage
UNFPA	United Nations Population Fund
USAID	U.S. Agency for International Development

INTRODUCTION

Investing in the health sector and advancing universal health coverage (UHC) will help build an enabling environment of economic prosperity and social inclusion. Globally, there is consensus that strengthening primary health care (PHC) is a cost-effective approach to UHC and to reaching the United Nations Sustainable Development Goals (Hanson et al. 2022).

Timor-Leste is committed to achieving progress towards UHC and recognizes the imperative of improving health financing. The Ministry of Health (MOH) has aligned the objectives of its National Health Financing Strategy 2019-2023 with strengthening the implementation of PHC, and its annual action plan explicitly targets improving health funding for PHC along with increasing the overall health budget to 8 percent of total government expenditures.

Each year, the MOH, Ministry of Finance (MOF), and development partners conduct a joint monitoring exercise to identify gaps in the availability of funds for operational services at health centers and health posts. Over the last five years, reallocation of PHC funds together with inadequate budget execution has raised concerns about disbursement mechanisms, funding predictability, accountability, and the quality of health service delivery -- thereby hindering the ability to mobilize additional PHC resources from national or international sources.

Government spending on PHC is used primarily to pay for wages of health professionals such as doctors, nurses, midwives, allied technicians, and administrative services staff (Timor-Leste government transparency portal). As a result, little remains to pay for goods and services, equipment, basic infrastructure, medicines, and maintenance costs. This has prevented health professionals from providing adequate health services, which the community has criticized.

More broadly, Timor-Leste's economy has been weakened over the last several years by multiple recessions, the impact of COVID-19, Cyclone Seroja in 2021, and the global economic turndown. Its government faces the urgent task of increasing productivity and optimizing the effectiveness of government spending. An effective medium-term economic recovery strategy requires investments that boost workforce productivity and improve the population's health.

This brief analyzes the current PHC spending vis-à-vis the Health Financing Strategy 2019-2023 and provides several policy recommendations for the MOH including evidence-generation activities to drive structural and organizational changes aimed at strengthening PHC, including financing and health system strengthening approaches. The successful implementation of these recommendations will contribute to improving health outcomes.

CONTEXT AND RATIONALE FOR STRENGTHENING PHC FINANCING

In Timor-Leste, health outcomes have improved significantly over the last 20 years. Between 2000 and 2020 the maternal mortality ratio fell from 750 per 100,000 live births to 204 per 100,000, and the under-5 mortality rate fell from 111.3 per 1,000 live births to 52.2 (World Bank World Development Indicators). Over the same period, total life expectancy at birth rose from 58.6 years to 68.5 years. However, challenges remain: most of the population live in rural, hard-to-reach areas (71.4 percent); almost half live below the poverty line (42 percent); and its rates of communicable diseases, malnutrition, maternal mortality, and population growth are some of the highest in Southeast Asia.

These are exacerbated by demographic projections that indicate growing demand for services given that 4 percent of the population are children (age 0-9), 6 percent are of advanced age (age 65-85+), and 9 percent will reach retirement age within 10 years (age 50-64) (Timor-Leste

National Institute of Statistics 2023). However, limited government resources are being allocated to address these issues.

PHC is widely recognized as the best platform for providing basic health interventions, including effective management of noncommunicable diseases and essential public health functions (Hanson et al. 2022). Spending on PHC functions such as prevention and coordinated care reduces the need for specialty, emergency, and hospital services, and improves health outcomes while reducing overall health care costs. In Timor-Leste, by contrast, there has been overinvestment in specialized hospital care and underinvestment in lower-level services, hindering the provision of high quality services to those who need it most and in conflict with its goal of UHC (World Bank 2014).

The current insufficient investment in PHC is weakening the performance of the health system. It results in low quality and inaccessible services at the community health centers and posts where there is a lack of health equipment and materials, capable human resources, and adequate infrastructure, including water and sanitation. Investing in PHC will expand access to prevention and treatment of high prevalence conditions such as malnutrition, tuberculosis, pneumonia, diarrhea, diabetes mellitus, hypertensive heart disease, and ischemic heart disease. Such investments not only enhance equity and access but also improve health system performance, accountability, and health outcomes.

Investing in PHC aligns with current strategies, policies, and plans outlined by the MOH. Achieving the four main objectives of the National Health Financing Strategy 2019-2023[1] would enable increasing PHC expenditures and scaling of PHC services. The objectives are:

1. Ensure financial protection for the population.
2. Increase health funding to cover unmet needs including coverage of essential services and investments to tackle financial needs associated with noncommunicable diseases and others.
3. Reduce inequities in resource availability and service utilization across territories and population groups.
4. Improve system allocative and technical efficiency.

Further, the four key pillars of Timor-Leste's Integrated Health Program, launched in 2023, serve as enablers for a rapid PHC scale-up strategy: enhancing referral networks, bringing services closer to the community, and focusing on health promotion, prevention, screening, diagnosis, treatment, and rehabilitation.

PROGRESS IN IMPLEMENTING THE HEALTH FINANCING STRATEGY 2019-2023 IN REFERENCE TO PHC

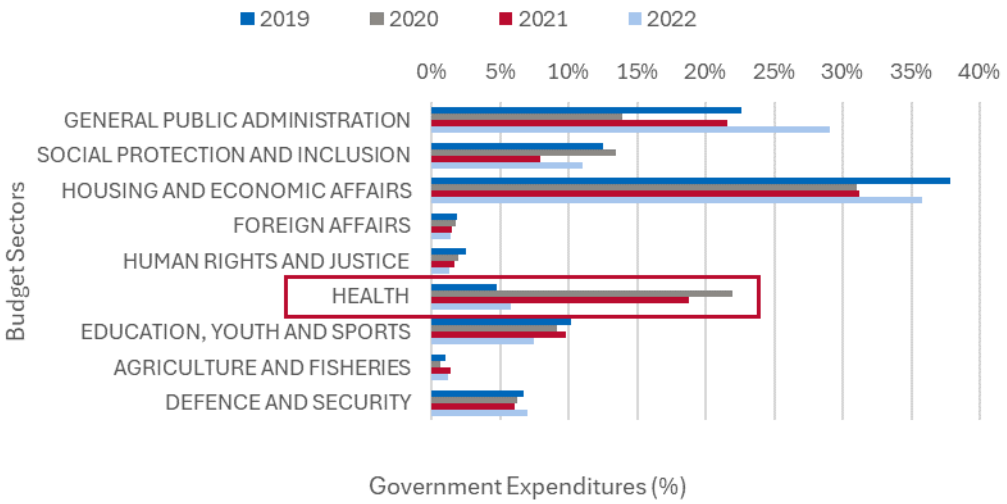
Increasing health funding to cover unmet needs: prioritization of health in government budgets

The MOH operationalized its National Health Financing Strategy objectives in its 2023 annual action plan. One of the priorities explicitly stated within the plan was to increase health funding to cover financial costs for PHC services. The MOH allocated budgetary resources towards implementing health financing reform, aiming to elevate the health budget to 8 percent of the total government expenditures (Ministry of Finance). Despite an upwards trend in absolute

[1] The Health Financing Strategy 2019-2023 was developed with the cooperation of the World Health Organization and approved in October 2019. The strategy was developed based on the Health Financing Country Diagnostic Assessment conducted in 2017 to assess and provide information about Timor-Leste health financing situations.

health budget figures since 2019, the proportion of health budget relative to the total government budget has fluctuated. Figure 1 shows government allocations to health and other sectors – though 2020 and 2021 appear to show a promising significant upward trend, this is due to COVID-19 related spending rather than broader PHC investments, demonstrated by 2022's marked decrease to below the 8 percent target.

Figure 1. Government Expenditures by Sector, 2019-2022



Source: Budget Transparency Portal, Timor-Leste (accessed 29 December 2023, emphasis added)

Prioritization of PHC within the overall health budget

Within the health budget, allocations to PHC are relatively low and variable. Even though budget allocations to PHC have been rising over recent years, PHC expenditures have not kept pace and PHC expenditure as a proportion of total GHE has fluctuated considerably. Table 1 shows that between 2019 and 2023, PHC expenditure as a proportion of total GHE ranged between 15 percent and 30 percent. Recent estimates of PHC spending in low- and middle-income countries range between $15 and $60 per capita (Vande Maele et al. 2019). The current $28 per capita allocated to PHC in Timor-Leste is at the mid-to-low end of this range. Moreover, it has been estimated that achieving 80 percent coverage of PHC interventions in low- and middle-income countries would cost $97 per capita (Stenberg et al. 2019), well above the current allocation to PHC in Timor-Leste.

Table 1. Original Budget Allocations to PHC, Actual Budgets and Expenditure, 2019-2023

Year	Original PHC budget allocation ($ million)	Adjusted PHC budget ($ million)	In-year % change in PHC budget allocation	PHC expenditure ($ million)	PHC expenditure as % of adjusted budget	PHC expenditure as % of total GHE
2023	29.96	29.72	0.8%	24.69	83%	30%
2022	27.08	26.82	1.0%	25.33	94%	25%
2021	29.12	28.91	0.7%	25.33	88%	15%
2020	21.81	21.90	-0.4%	20.37	93%	21%
2019	19.99	19.55	2.2%	18.76	96%	29%

Source: The Budget Transparency Portal, Government of Timor-Leste (accessed on 29 December 2023)

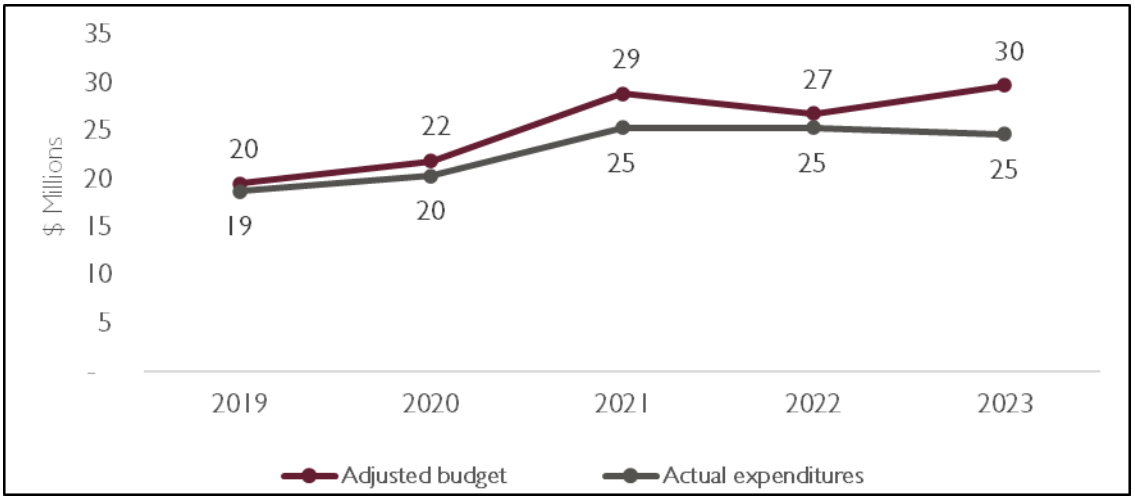
Global estimates are a helpful starting point, but no substitute for in-country assessments to accurately determine specific PHC financing needs. Timor-Leste's revised Primary Health Care Essential Service Package (PHC ESP) 2020 could form the basis for a more precise estimate of the level of funding needed to provide high quality PHC services nationally. The PHC ESP 2020 was approved by the MOH through the Council of Directors in 2020 and was designed to achieve the government commitment to provide quality and equitable health services to all citizens and to achieve UHC. It is a normative framework that identifies all the health services to be offered at each PHC facility level, including maternal and child health, adolescent and youth health, nutrition, control and management of communicable and noncommunicable diseases, outpatient and inpatient care, diagnostics and laboratory services, health promotion, environmental health, and ancillary services. The PHC ESP 2020 identifies the inputs required at each health facility level to deliver the services included in the package, but it has not yet been costed: the required inputs have not yet been translated into financial needs that could be used for planning and budgeting.

Execution of PHC budgets

The amount and quality of PHC services that can be delivered depends on actual spending rather than on budget allocations. An analysis of government expenditures on PHC revealed that funds budgeted for PHC were frequently shifted out to other health programs, which led to unavailability of funding for PHC service delivery. Moreover, budget execution rates have varied: in some years a significant proportion of the adjusted PHC budget was left unspent at the end of the year. Table 1 (above) shows original budget allocations, adjusted budgets and actual expenditures for PHC between 2019 and 2023.

Government budget allocations to PHC rose by 50 percent between 2019 and 2023, but actual expenditure rose by only 30 percent. On average about 1 percent of the budget that was originally allocated to PHC was shifted out to cover other health programs. The proportion of the adjusted budget left unspent ranged from 4 percent to 17 percent. Figure 2 illustrates these budget execution gaps. The gaps were most significant in 2021 and 2023, with unspent budget of approximately $4 million and $5 million, respectively.

Figure 2. PHC Budget Execution Gaps, 2019-2023



Author's calculation, using primary data from the Ministry of Health's Free Balance System.

The unpredictability of PHC budgets and low expenditures raise concerns about PHC financing efficiency and accountability, and consequently about delivery of services at the facility level. These issues require strengthening of the public financial management (PFM) system.

PFM ISSUES AFFECTING SPENDING EFFICIENCY AND QUALITY OF SERVICES AT PHC PROVIDERS

A well-functioning PFM system is required to ensure predictable budget allocation, reduce fragmentation in revenue streams and funding flows, and support timely budget execution, financial accountability, and transparency (Cashin et al. 2017).

In Timor-Leste a range of PFM issues prevent the funds available for PHC from being used efficiently. Disbursement of funds to the community health centers and health posts where PHC services are delivered is unpredictable and often delayed, causing interruptions in conducting key health programs in the catchment areas. The flow of funds to PHC facilities is fragmented because there is no pooling to harmonize resources committed by the government and development partners. This can lead to duplication of activities and inefficient resource use.

The government continues to use traditional input-based provider payment mechanisms, instead of alternative mechanisms such as pay-for-performance and capitation that would enhance the accountability of providers and the quality and efficiency of service delivery. The MOH initiated a plan to introduce a performance-based payment mechanism for health workers, but this has been underdeveloped and providers are currently paid on an incremental budgeting basis. In addition, The World Bank is also conducting a comprehensive PFM assessment of the health sector which will help inform the PFM reforms.

The PFM system, especially Decree Law 38/2016 on financial management decentralization, results in a cumbersome budget execution process that causes delays in the release of funding to community health centers. The following are some of the limitations in the current guidance and implementation of PFM:

- The decentralization policy requires all services to be delegated and competencies given to the Municipality Authorities, but due to limited municipality capacity, the MOH has not yet delegated full competencies to the Municipality Authorities. This adds to the cumbersome process of disbursements and delays health program activities. The MOH's Health Financing Unit and the USAID Health System Sustainability Activity's joint PFM assessment revealed this limited capacity is primarily due to a lack of training and orientation in PFM principles, procedures, and processes of municipality PFM staff; poor communication about PFM reforms to directorates and referral hospitals, and unclear roles and responsibilities of PFM staff.
- The MOF allocates the annual budget for PHC in a fragmented way, with the administrative operation budget allocated to the Municipality Authority and the health program budget allocated to the MOH. This sometimes disrupts spending on similar health activities conducted by different departments and units of the MOH.
- Though program-based budgeting integrates the PHC budget allocation at the planning stage by using the PHC program codes, at the execution stage spending the funds remains a challenge due to fragmentation in coding to record the spending by different departments, agencies, and unit of MOH. This hampers execution of the allocated budget to deliver health services.
- While the MOH has improved its fiscal transparency with portals reporting periodic information, there is limited capacity within the MOH to adequately generate the rationale for budgeting and estimate the impact of PHC investments.

- The MOH prepares costed annual operational plans. However, these strategies are not aligned to the government's Development Plan, and the MOH costing is not developed within resource envelopes derived from medium term forecasts.
- The MOH annual budget is accompanied by the annual action plan which outlines the objectives, programs, and results. However, these AOPs are disconnected from realistic budget allocations (MOF, 2022).

RECOMMENDATIONS

Recommendations are drawn from the issues analyzed and pertain to PHC financing, level of resources needed, budget execution, and efficiency and accountability.

Prioritize and protect allocations to PHC within the total health budget

To improve the quality, equity, and effectiveness of PHC delivery, it is critical for the government to sustainably increase the priority it gives to PHC and allocate sufficient resources to deliver the ESP, a fundamental right of citizens to access universal health services free of charge. To support an increase in government funding for PHC, it is recommended that:

1. The MOH should work closely with the MOF to develop an investment case for increasing government funding to PHC.
    - To inform development of the investment case, the Health Financing Unit in MOH should develop a comprehensive budget and expenditures analysis for the PHC ESP 2020 and estimate annual costs for its implementation. This will provide evidence to inform negotiations between the MOH and MOF on budgets for PHC. The MOH should use the costing of the PHC ESP to develop short-, medium-, and long-term expenditure plans that ensure a sustainable stream of funding to PHC from the General State Budget.
    - The investment case should indicate which areas of PHC will be prioritized for use of additional funding. These might include acquisition of goods, equipment, medicines, basic infrastructure, the maintenance of equipment and buildings, and the implementation of rural and remote areas health worker incentives, approved in 2008, to increase the recruitment and retention of PHC workers in rural and remote areas and so contribute to the government's commitment to improving access to and the quality of the first level of health care in Timor-Leste.
    - The MOH should also propose performance indicators for the short and medium term that can be jointly monitored by the MOH and MOF. This will make the returns on investment in PHC visible.
2. The Health Financing Unit – in partnership with development partners – should develop a public expenditure tracking tool to monitor PHC expenditures on a periodic (e.g., one- or two-year) basis. This will allow the MOF and MOH to monitor and harmonize PHC budget planning and improve accountability and reporting.

Enable efficient resources management and PHC operations

Adapting and adopting the existing PFM rules of MOF is crucial for the effective implementation of a PHC financing policy. Program Managers at national level must be empowered with capacity, information, and autonomy, and held accountable for effective budget execution.[2]

[2] The World Bank is conducting a comprehensive PFM assessment of the health sector; those recommendations should be reviewed once available.

1. The Budget and Financial Management Directorate of the MOH should coordinate with the MOF to review the Integrated Financial Management Information System implementation and update the chart of accounts to use a single-fund source code for spending by all MOH autonomous agencies, such as the National Institute for Health and the National Institute of Pharmacy and Medical Equipment. This will integrate PHC spending and help the MOH to better track PHC spending and make program decisions. The MOH can learn from experience of the Ministry of Defense and National Police of Timor-Leste, both of whom use integrated codes to record and track spending on security related interventions.
2. The Health Financing Unit, in partnership with development partners should develop a budget execution template to monitor the spending on various programs and provide timely feedback on a monthly or quarterly basis. This will allow the decision makers in the MOH to track spending and improve reporting and accountability. The Health Financing Unit should use the results of the tracking to identify the main bottlenecks to budget execution, to investigate their causes and to propose steps that MOH can take to reduce them.
3. To facilitate continued decentralization of Treasury functions related to payments, accounting, and reporting to municipalities, the Treasury should decentralize payments in phases, with the low-risk payments such as payroll and benefits going first and high-risk payments such as procurements going last.
4. To implement budget execution functions in a decentralized manner, MOH should define the roles and responsibilities of PFM staff and MOF should provide training and technical assistance to Municipality PFM staff in applying rules and procedures in accounting and reporting of PFM. This capacity building should have a major focus upon the existing practices used in the country, correct usage of IFMIS system, ePortals, and the capacity to extract useful reports.

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