Take A Walk
On The Demand Side

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Markets

- Locus of the voluntary exchange between a buyer and a seller or a provider and a consumer
- In the actual use of a social good, e.g. health care, we observe the result of many individual decisions on whether to consume and whether to provide in a particular location: the market
- For social goods in poor countries and environments (e.g. rural areas) there are many constraints and “imperfections” affecting this outcome.
- Governments try to correct these “failures”, some of which are due to inherent limitations in market, or other causes, in order to increase social welfare
Examples of causes of how markets may fail to produce desired outcomes

- Information – consumers don’t know what they need or can’t judge/evaluate it
- Externalities – what one consumer does or doesn’t do affects others
- People are too poor to afford what they need
- Providers won’t enter the market at any reasonable price
Supply or Demand Side? Or both?

- **Supply side:** reduce constraints on the production side
  - Create publicly owned supply
  - Contract out or subsidize private to create publicly financed supply

- **Demand side:** reduce constraints on the consumption side
  - Provide information/behavior change
  - Provide purchasing power...e.g. vouchers
  - Provide incentives to change behavior...e.g. CCTs
Why not only the supply side solutions?

- Depends on the cause of the low consumption
- In some cases, there is insufficient supply – may need supply side solution
- In many settings – there is lots of unused public supply...why?
  - Poor quality – supply side solution
  - High price – supply and/or demand side solution
  - Lack of information by consumers – demand side solution
Choosing a strategy

- Understand the market – not only the government sector
- Assess the types and causes of insufficient consumption
  - D or S side causes present?
  - Which are most important?
  - Which are most cost-effective to address?
- Consider the feasibility and cost of S and D side interventions: advantages and disadvantages
Supply Side

**ADVANTAGES**
- Simple to introduce
- Cheap to administer

**DISADVANTAGES**
- Difficult to target
- Weak incentives to provide services of high perceived quality
- Weak incentives for efficiency
Demand Side

ADVANTAGES
- Productivity-based remuneration
- Evidence-based practice
- Targeting
- Output-based monitoring and evaluation

DISADVANTAGES
- Higher transaction and administrative costs
- Over-servicing
Provider- versus Consumer-led Demand Side Financing

**CONSUMER-LED**
- Funding is transferred to the consumer, either as cash or as some token of exchange (such as a voucher), either in advance of service provision, or post-hoc as a refund

**PROVIDER-LED**
- Consumer has entitlement, but funding is paid to the provider based on a contractual arrangement with the funding agent in which there is a direct link between output and the quantity of funding.
Examples of consumer-led subsidy schemes

**SUBSIDIES TRANSFERRED BEFORE SERVICE PROVISION**
- Cash transfer payments
- Contributions to, or tax-rebates on, family medical savings schemes
- Vouchers

**SUBSIDIES TRANSFERRED AFTER SERVICE PROVISION**
- Cash refunds
Examples of provider-led subsidy schemes

**SUBSIDIES TRANSFERRED BEFORE SERVICE PROVISION**
- Capitation payments
- Cost and volume contracts

**SUBSIDIES TRANSFERRED AFTER SERVICE PROVISION**
- Fee-for-service payments
- “Target” incentives
Vouchers
A Voucher is:

- A token that can be used in exchange for a restricted range of goods or services, either partially (e.g. as a discount) or in total.

OR PUT MORE SIMPLY

- ‘Tied cash’
A typical voucher scheme in health
Six Scenarios in which the Use of Vouchers Might Make Sense

- For targeting subsidies more accurately
- For stimulating demand for under-consumed services
- For simplifying the administration of demand side subsidies
- For reducing provider-induced demand
- For providing service packages of fixed or predictable cost
- For increasing client satisfaction
Good candidates for targeting with vouchers include:

- Groups who operate outside the law (drug addicts; often commercial sex-workers)
- Groups that fear stigmatization (e.g. TB patients; leprosy patients; HIV/AIDS patients; men who have sex with men)
- The poor, if these can be more accurately identified in the community than at the point of service delivery
Why (and where) might demand side strategies make sense in India

- Government service delivery:
  - Is weak in terms or real access and/or quality
  - Efforts to improve it are very difficult or unlikely to succeed at reasonable cost

- Non-government service delivery:
  - Is widely physically accessible
  - Of adequate quality, or improvable at reasonable cost
  - Not financially accessible to target group

- (For vouchers) – there is high awareness of need for services and unrealized demand

DO YOU KNOW ANYPLACE THAT SOUNDS LIKE THIS?
A GUIDE TO COMPETITIVE VOUCHERS IN HEALTH

2005, The World Bank
Toolkit on Competitive Voucher Schemes in Health

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Dr Anna Gorter
Dr Zil Rojas
MSc Micol Salvetto
Toolkit Content

1. Supply and Demand Side Subsidies
2. What is a Competitive Voucher Scheme
3. When to Consider a Voucher Scheme
4. HOW TO INTRODUCE
   - Pre-Feasibility then Feasibility Work
   - Design (Key Process and Structures issues)
   - Implementation (Key steps)
   - Monitoring and Evaluation
Thank you