



FUNDING MECHANISMS FOR ANIMAL HEALTHCARE SYSTEMS

International institutions forecast a significant increase in animal production in developing countries in the next two decades. Such growth will have major consequences, including an increase in demand for animal health services from livestock keepers, as well as a pressing need for improved veterinary public health and food safety systems to safeguard human health.

Animal health services have proved notoriously slow in responding to changing demands, both in developing and developed countries. In the 1970-80s, privatization of public services, hence of animal health services, in developing countries was seen as the solution to overcome the scarcity of state financial resources. However, two decades later, there is ample evidence that the expected results have not been achieved. In developed countries, political, economic and institutional factors have played a strong role in delaying the adaptation of animal health services to changing consumer demands.

Factors affecting efficiency and effectiveness of animal healthcare systems include structural and organizational issues (e.g. the decentralization process taking place in most developing countries) as well as geographical circumstances (e.g. high transaction costs associated with service delivery in remote and rural areas). Furthermore, it has often been argued that the scarcity of funding is a major factor undermining the system's ability to adapt to new situations.

● Funding Sources

Systematic assessment of possible funding sources for national (human) health systems started in the late 1960s, and several funding options were debated with a view to the criteria of macro and micro efficiency, equity, feasibility and political acceptability. These were/can be adapted to animal healthcare systems and include:

- (i) taxation (general or earmarked, national or local);
- (ii) national livestock or animal health insurance contributions;
- (iii) private livestock insurance; and
- (iv) user charges or out-of-pocket payments.

Most animal health services rely on a mix of approaches, and the way in which they are combined carries different consequences in terms of equity and efficiency. For example, systems relying heavily on indirect taxation tend to be more regressive, i.e. affect poorer people more than wealthier ones, compared to systems based on direct taxation. However, other factors, such as the goods taxed, decentralization and devolution of power to districts and redistribution, may compensate for this effect.

● International Comparison

A review of the funding preferences for animal health and/or livestock insurance reveals certain differences between regions.

In OECD countries, and especially within the EU, policies for animal healthcare funding tend to focus on livestock insurance mechanisms. Several types of national livestock insurance systems exist, most of them focusing on direct losses due to epidemic diseases and/or on the associated consequential losses. For example, the UK compensates farmers for direct losses from the EU compensation scheme and the UK national budget, whereas Spanish and Italian farmers only receive the minimum compensation stipulated by the EU statutes*. Consequential losses, arising

* Compensation of direct losses in the EU is partly based on EU directives for list-A diseases. Compensation includes 50% of the value of animals subject to compulsory and pre-emptive slaughter, 70% of the value of those slaughtered for welfare reasons and 50% of the costs of organisation (i.e. administrative costs).



from trade bans for example, might be compensated through private insurance schemes (e.g. The Netherlands, Germany, UK), free public insurance schemes (e.g. Finland, France) or public-private partnerships (e.g. Denmark, Finland, Spain). There is a growing tendency to rely on private insurance markets for livestock insurance so as to divert financial risks away from state funds. National schemes focusing exclusively on improving animal health exist, for example Australia's 'Animal Health Australia', or Greece's 'Agricultural Insurance Organization' (ELGA). These schemes are based on a combination of funding mechanisms and in part draw on taxation (direct or indirect) earmarked for animal health.

• Conclusions

Most African countries rely on general taxation for animal healthcare funding, with the ministry of finance allocating funds to the livestock sub-sector on an annual basis. Decentralization is taking place in some of these countries. In districts where livestock constitutes an important income-generating source, devolving the management of taxes collected to local authorities and earmarking these for animal health services may be a viable alternative. The process would enable local authorities to obtain a more stable and predictable budget for animal health services, which could then be more adapted to local needs. This alternative could make budget allocation a more transparent and thus more accepted by the local population.

In Asia, some countries (e.g. India, Indonesia, Malaysia, Nepal, the Philippines, Sri Lanka, Thailand) have a relatively consolidated culture of National Livestock Insurance schemes that emerged in the 1970-80s to address risks subsistence smallholders are confronted with when engaging in livestock production. These schemes however tend to target dairy production. Given the developments in international animal health standards, the use of such funding schemes appears a useful tool when considering livestock production from a commodity chain perspective.

• Recommendations: A Pro-poor Focus to Funding Mechanisms

When focusing on pro-poor policies

for the livestock sector, the equity criterion will play a central role. Several authors have recently debated the role of the state in promoting agricultural and consequently livestock development, arguing that structural adjustment programmes may have left vulnerable groups worse off than before. State intervention appears justified in areas where there is market failure, which is the case for most remote locations, and on social or environmental grounds. For pro-poor development, revenues collected for the livestock sector through the aforementioned mechanisms should be channelled to benefit the less-favoured farmer populations. Planning of animal healthcare funding should consider the following:

- In the case of general taxation at the national level, a redistributive tax system would allow the central government to allocate resources to poorer districts/provinces, with priority given to poor farmers. However, as a precondition, livestock service needs of various producer groups have to be carefully assessed.
- Within taxation systems for the livestock sector, indirect taxation should be carefully assessed (i.e. types of goods or services and who the consumers are) so as not to increase the tax burden of the worse-off farmer population.
- When designing insurance schemes, incentives should be provided for poor livestock keepers (including those with livestock other than dairy cattle) to access the scheme. This might be possible by increasing risk pooling and risk sharing between livestock insurance funds (progressive membership fee calculation or premium setting, risk-based payment or contribution, exemptions, etc.).

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