



April 12 - 13, 2007 | Best Western Resort Country Club | Gurgaon, India

# Take A Walk On The Demand Side

Peter Berman  
World Bank

# 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



April 12 - 13, 2007 | Best Western Resort Country Club | Gurgaon, India

# Vouchers

# A Voucher is:

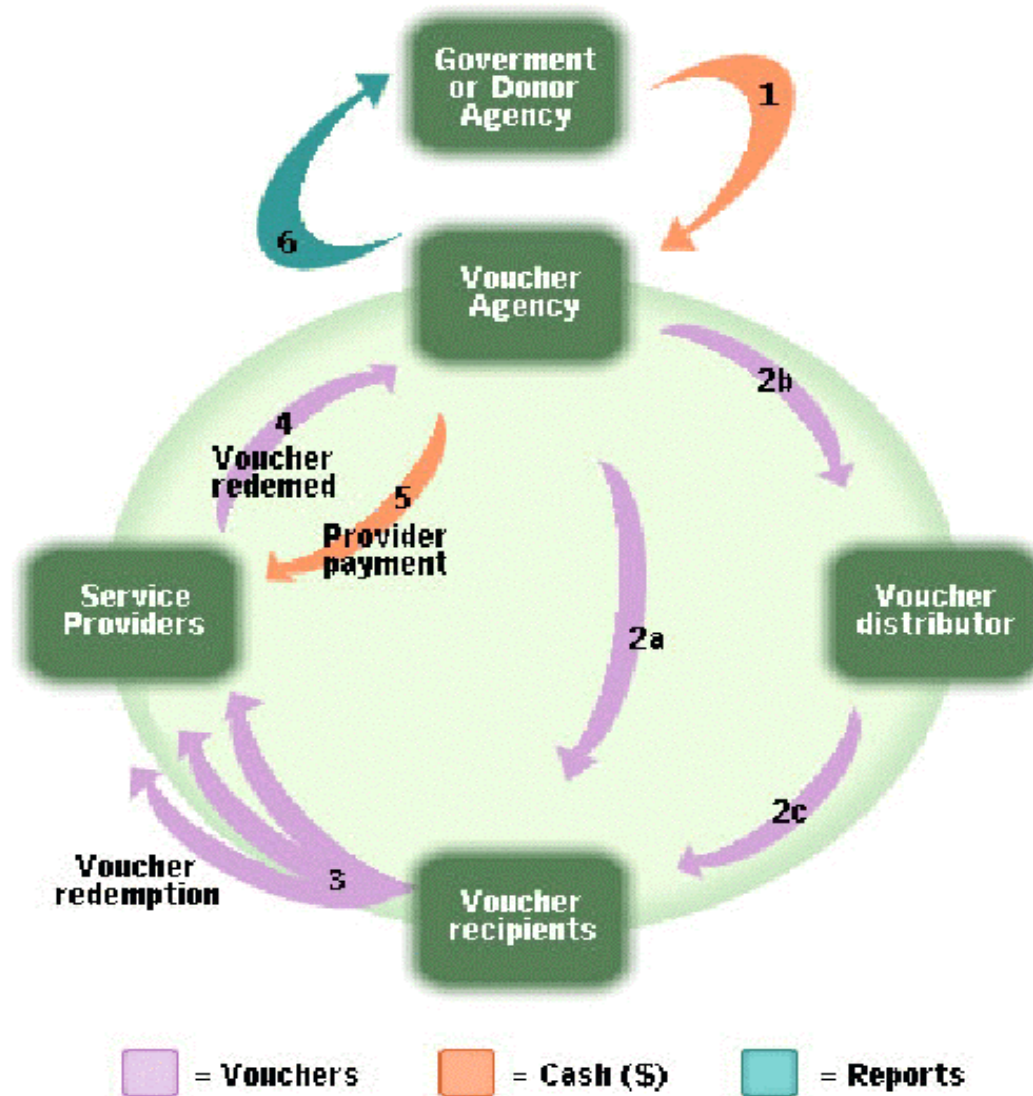
---

- 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 of 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



PORTADA

CONTRAPORTADA

**Dr Peter Sandiford**  
**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



April 12 - 13, 2007 | Best Western Resort Country Club | Gurgaon, India

# Thank you