FISCAL SPACE FOR HEALTH AND FOUR WAYS TO INCREASE IT

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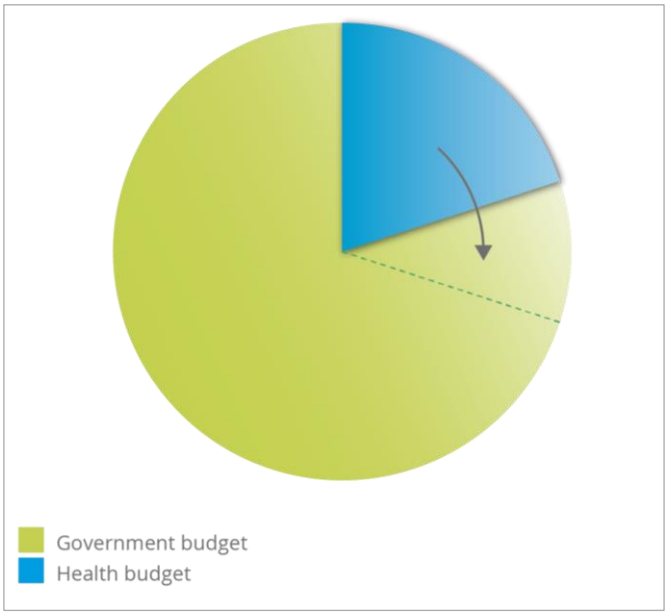
Since the adoption of the Sustainable Development Goals (SDGs) in 2015, there has been increased global attention for the funding gap for health in low- and middle-income countries (LICs and LMICs), the need to expand fiscal space for health, and the countries' economic limitations.[i] In this factsheet we explain the term fiscal space, connect it to the health sector and highlight its relation with gender and human resources for health (HRH).

Fiscal space: *"the availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of a government's financial position".*[ii]

In simple terms, fiscal space is the flexibility of a government to decide how money is spent.

In order to create more fiscal space, governments can pursue different policy interventions. However, increases in public revenue do not necessarily translate into increased fiscal space **for health** in particular. Governments may decide to prioritize other sectors instead, despite good intentions and commitments.

If re-prioritizing, governments should give careful consideration to which sectors to cut back on, with a view to equity and future sustainability. The challenge for LICs is to generate more fiscal space **overall**.



Prioritization of health

Health de-prioritized
In Tanzania, drastic cuts on the health budget led to a significant shortage of health personnel in 2002. The demands of the HIV/AIDS epidemic were covered with inadequately subsidised 'home-based care', which is traditionally taken up by women. Women thus filled the created gaps in HRH with unpaid work.[iii,iv]

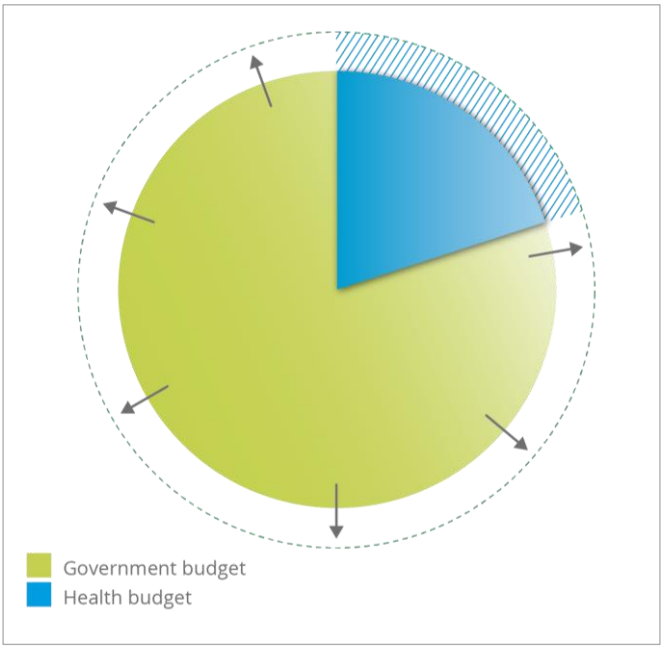
In 2001, African Heads of States committed to the Abuja Declaration: they would spend at least 15% of their government budgets on health. To this date however, only 2 out of 55 African countries have reached this target.[v] Other thresholds that are recommended for LICs and LMICs are to spend >5% of GDP and USD 86 per capita on primary health care and universal health coverage (UHC). This was proposed by global health experts in 2014. Currently only 2 and 11 out of 55 African countries have reached these targets, respectively.[v]

Next, we will describe four options to increase the fiscal space and funds for health, together with their benefits and risks.

1. Raising domestic revenue

Raising domestic revenue from taxation is of great value for any state. It creates fiscal space to provide public services, including health care, and reduces donor resource dependency and reliance on borrowing. Increased domestic revenue also reinforces national ownership. It empowers citizens' to be critical on their government's spending decisions and to demand public returns from their contributions.

It is crucial though that taxation is fair and *progressive*; that people with more wealth pay more taxes than people with lower ability to pay, thus mitigating income inequality. Examples of progressive taxation include income and wealth tax and consumption taxes (like VAT) on luxury goods (e.g. jewellery and designer clothing). *Regressive* forms of taxation include VAT on daily needs (necessity goods like food and gasoline) and flat-rate property tax. However, LICs and LMICs rely more on consumption taxes and levies on services, which enhances income inequality.[iv,vi,vii]



Raising domestic revenue

It is important to note that the way a government taxes its citizens does not only affect the gap between rich

and poor, making it larger or smaller; certain taxes also have a heavier burden on women, thereby weakening their economic power.

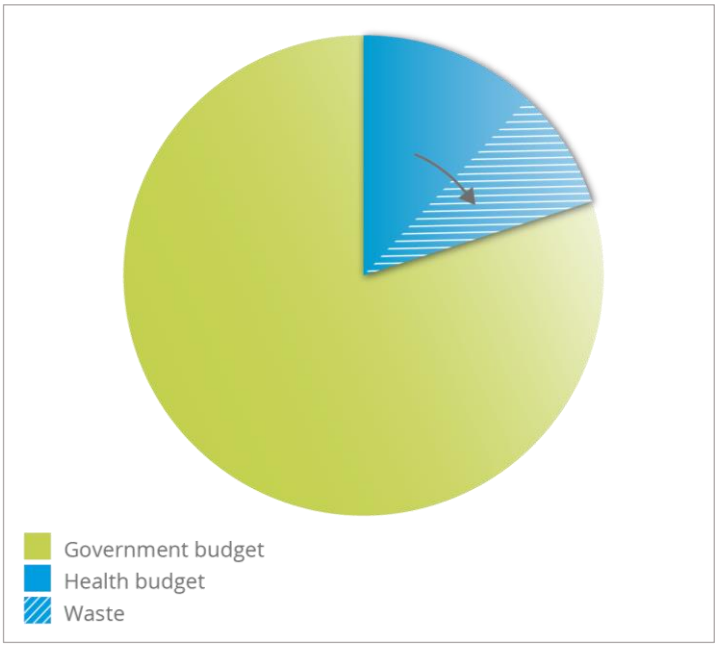
Tax and gender
Researchers found that in Kenya, female-headed households bear a greater VAT burden when compared to male-headed households, due to the lower income that women generally earn, compared to men. Therefore, the tax proportion in their total income is higher. [iv,viii]

Tax from multinational corporations is an important source of government revenue. Tax avoidance and (illegal) tax evasion by large companies and multinational corporations, and the pressure on countries to lower corporate tax rates or to provide tax exemptions to attract foreign investment are major impediments to increasing tax revenue. Research shows that African countries lose USD 68 billion per year in capital flight, mainly by multinational companies deliberately misreporting the value of their imports or exports to evade tax.[ix] For a country like Zambia for instance, government revenue lost to tax avoidance is calculated to be around 1 billion USD or 5% of its GDP (based on 2013 IMF figures)[x]. If this amount of money were part of the public purse, it could increase spending on health.

Other options for raising domestic revenue can be through profits of state-owned economic enterprises and expanding the money supply by the Central Bank. The most frequent counter-argument around the latter is the looming impact on the country's inflation rates. If a lot more money is printed, it will lose its value and prices of products can skyrocket.

2. Improving efficiency and reducing waste

Fiscal space can also be enlarged by reducing corruption and wastage, and improving governance and efficiency. Spending inefficiencies can be large in the health sector. The Global Strategy on HRH 2030[xi] estimates that about 20-40 percent of health spending is wasted globally as a result of health workforce inefficiencies, like absenteeism and payroll "ghosts", weaknesses in governance and lack of oversight.



Improving efficiency and reducing waste

The fact is that health workers are often asked to be available 24/7, without anyone ever checking in on them, working in health facilities without reliable electricity

supply, running water and waste disposal, with equipment that is often obsolete and not functioning. There may be legitimate reasons for their absence and for not performing "efficiently and effectively". Improving supervision should involve ensuring proper working conditions and not merely checking presence.

Finding the optimal skill mix in health teams can improve technical efficiency. For example, in Ethiopia, task shifting among the health workers and the creation of a new cadre of health extension workers to deliver common interventions in local communities contributed to a better balance in the distribution of health workers, which was highly skewed towards urban areas, and resulted in large savings in wages[xii]. In addition, health information systems which allow monitoring and evaluation of health system performance can also bring efficiency gains, as happened in Uganda where absence of health workers without approval was significantly reduced.[xiii]

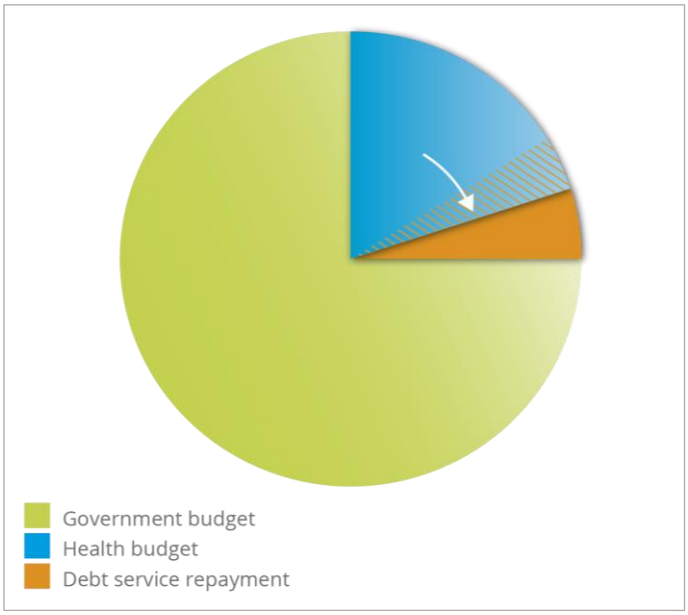
What about leaving it to the private sector?
Donors and development finance institutions like the World Bank are actively promoting public private partnerships (PPPs) in public service sectors to circumvent budget constraints and also to "complement" scarce public resources. They claim that private investment enhances efficiency and that efficiency gains from involving the private sector would allow some additional fiscal space. However, research shows that PPPs are not always more efficient, can be expensive and entail great risks for governments in the form of financial obligations.

Lesotho's Queen Mamohato Memorial Hospital is an insightful example of how health-related PPPs can be extremely risky and costly for low-income and low-capacity contexts. This particular PPP started in 2008 with a contract that locked the government into an increasingly unaffordable fee for the following 18 years.[xiv,xv]

3. Domestic or external borrowing

The crucial questions when engaging in new borrowing is whether borrowed money will be invested in such a way that will earn the government enough funds to repay the loan in the future.

The prioritization of debt service repayment may absorb essential funding for health services. In some countries, debt service is even higher than health spending, as a share of the government budget.[xvi] For countries in high debt distress, restructuring existing debt may be justifiable if the legitimacy of the



Domestic or external borrowing

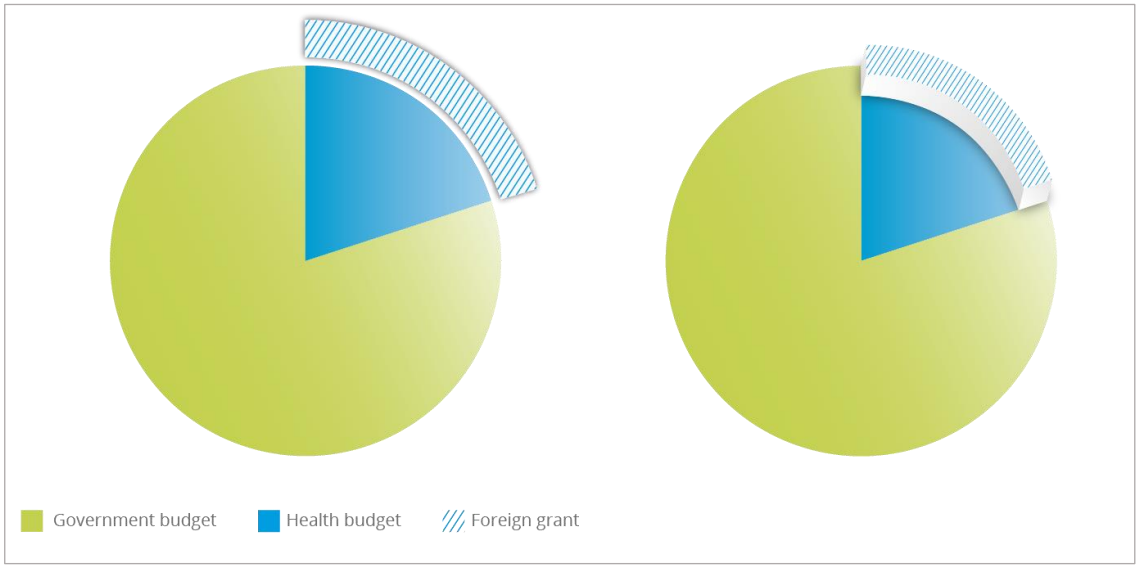
debt is questionable or the opportunity cost in terms of worsening economic growth and living standards is high[xvii]. Debt restructuring, as well as debt relief, can free up some of the public resources and redirect them towards health.

When assessing the sustainability of a programme initiated by borrowing, governments need to consider several factors, such as the economy´s prospective growth rate, the prospective interest rate environment and the country's capacity to repay the debt. Government borrowing costs could start to rise as public debt accumulates, as is the case in many LICs and LMICs. Even when loans are on highly concessional terms, meaning with low interest rates and long grace periods, debt sustainability considerations are still relevant. The IMF uses a 40% long-term debt-to-GDP ratio as the threshold that developing countries should not exceed in order to ensure fiscal sustainability and macroeconomic stability. Other analysts suggest a higher ceiling; up to 60% debt-to-GDP.[ii]

The World Bank's Global Financing Facility (GFF) is an example of a grant attached to a much larger World Bank loan, something that raises several concerns.[xviii] The repayment of the loan in the medium and long-term may force governments to cut their spending in other areas, such as essential social services. Ultimately, this can undermine or weaken the health system overall. Moreover, in GFF investment cases, as in many other external sources of funding, it is not clear whether the money can be allocated to health workers' salaries. Therefore, it does not assist governments to expand their HRH staffing levels, which is crucial for health systems strengthening.

4. Foreign Grants

Foreign aid can be either off-budget, circumventing the government and going directly towards projects, or on-budget, so added on top of the government's health budget.



Off-budget and on-budget foreign grants

International commitments have been made on official development assistance (ODA), but they have hardly been met. In 1970, countries of the Organization of Economic Co-operation and Development (OECD) pledged to allocate 0.7% of their gross national income to ODA. Even though they repeated this pledge on several occasions, only five countries out of 36 met the target in 2017[xix]. Grants, being free from debt related risks, can definitely increase fiscal space for health, provided that they are added to the government health basket.

However, they often cannot be directed towards recurrent costs, like health workers' salaries. Instead, it is common that donors prefer to finance one time projects, like procurement of medicines, vaccines and equipment or training of health workers. Because if they do fund health workers' salaries, there is no guarantee that governments will absorb these health workers when the donors pull out.

As external grants may generate future financial obligations, like the maintenance of a project, they need to have a predictable flow and follow a smooth transition to domestic funding. There is a risk of recipient governments reducing efforts for domestic resource mobilization in response to an inflow of grants – also referred to as budget *fungibility*.

In spite of commitments to improve aid effectiveness, donors have not made much progress in better harmonizing, aligning and coordinating ODA, which puts a large burden on recipient governments to manage many different actors and programmes.

It is important to note that while traditional ODA grants to support government resources are diminishing, the past decade has shown a rapid increase in ODA support to strengthen the private sector, increase business, and 'leverage' private investments (through blended finance and PPPs). However, this type of ODA support grossly lacks evidence on value for money in terms of development effectiveness, and there are worrying signs that it exacerbates poverty and inequalities.[xx]

To wrap it up…

The different ways of creating fiscal space for health should not be regarded as independent of each other but rather be employed together. Achieving UHC and the health-related SDGs requires a mix of sources, depending on the countries' context, in which public financing is crucial. Rather than solely considering income growth, domestic revenue mobilization should be central. It is important to keep in mind though that increasing revenue for health should be achieved in a progressive way, without burdening those who should be helped. Otherwise, its very purpose is fundamentally contradicted.

SUMMARY TABLE

Policy Option	Benefits (+) and Risks (-)	Recommendations
Raising domestic revenue	+ National ownership + Citizens can hold governments accountable and demand public returns + Sustainable funding source	✓ End tax holidays, tax avoidance and evasion ✓ Strengthen capacity of Revenue Authority ✓ Formalize labour market ✓ Introduce progressive forms of tax, i.e. wealth tax, and implement progressive and gender-just VAT reforms
	- It gets long time to see results - Challenging in countries with large informal sector - Risk for international trade relations - Risk of regressivity - Risk of inflation (if money is printed)	
Improving efficiency and reducing waste	+ Reduction of wastage + Free from debt-related risks and grant obligations + Sustainable	✓ Increase managerial capacity ✓ Improve information systems for planning, monitoring and evaluation ✓ Improve oversight, involving civil society, health workers and patients
	- Requires investment, planning, and management - Privatization, often presented as a quick-fix to inefficiencies, is no guarantee for improvement	
Increasing sovereign debt by domestic or external borrowing	+ Quickly available funds + Not tied to donors' agenda	✓ Assess debt sustainability ✓ Negotiate debt restructuring or debt relief
	- Debt sustainability issues - Conditions tied to the loans	
Foreign grants	+ Free from debt-related risks (if not linked to a loan)	✓ Channel external funds through the government (resource pooling) ✓ Ensure that funds are available for salaries ✓ Improve donor commitment and alignment
	- Future financial obligations - Often not available for recurrent costs - Budget fungibility and volatility - Conditions attached to the funds - Lack of ownership - Fragmentation/duplication	

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