



# HOW CAN COUNTRIES INCREASE TAX REVENUE TO FUND UNIVERSAL HEALTH COVERAGE?

## Background

There has been a resurgence of global interest to find strategies to support universal health coverage. With many countries relying heavily on donor funding, which is both unstable and unsustainable, it is necessary to identify mechanisms to increase domestic resources for health. One potential solution is to create fiscal space for health, i.e. the availability of budgetary room that a government can use to provide resources for health in a sustainable manner, through increasing tax revenue.

It is often assumed that low and middle income countries cannot increase tax revenue due to weak administrative capacity, high levels of tax evasion and large informal sectors. However, some African countries have shown that fiscal space can be expanded by strengthening the tax administrative system; yet, there is little documentation of these experiences.



## About the research

RESYST researchers conducted case studies in South Africa, Kenya and Nigeria (Lagos state) to document country experiences of increasing the effectiveness of their tax collection services, and to investigate the extent to which this contributed to increased health sector spending. The studies used a mixed-methods approach including quantitative methods to describe change in general tax revenue and government spending on health, and key informant interviews to explore factors accounting for improved tax revenue and government budgeting decisions.

**1** It is possible to substantially increase domestic tax revenue, even in low-income countries, by expanding the tax base and improving the efficiency of tax collection systems.

Several factors contributed to this including periods of strong economic growth and political support for the tax collection agencies. In Kenya and Lagos Nigeria, specific efforts were made to reach the informal sectors by taxing small businesses in Kenya and reaching informal trade associations in Nigeria.

### Key features of a dynamic and efficient tax collection agency

- Semi-autonomous with the freedom to make decisions, but still accountable to Ministries of Finance;
- Strong and sustained leadership;
- Close cooperation with banks and government departments to track the tax returns of clients;
- Prioritisation of high yield and high risk customers - multiple strategies for tax compliance;
- Concerted human resource development leading to better retention.

**2** More government revenue doesn't necessarily lead to more money for health. Health budgets are constrained by many factors, even in the context of economic growth and increased revenue collection.

Despite considerable healthcare problems experienced by countries, health wasn't able to increase its share of the budget as expenditure grew. This is because budget allocation decisions are determined by the treasury, which has competing priorities to health. The health sector can often appear inefficient and unproductive, with few economic benefits.

**3** A critical challenge for Ministries of Health is to find ways to make a better case for health during budget negotiations so as to expand their share of government spending.

Often, Ministries of Health do not have the technical capacity and strategic ability to make the case for increased health allocation, and communication with the Ministry of Finance is poor. Health policymakers need to provide more evidence of efficient use of resources, and better demonstrate the social and economic benefits of health investments.



## RESOURCES

- Tax collection project webpage for full list of resources at <http://resyst.lshtm.ac.uk>
- Policy brief: Raising domestic resources for health: can tax revenue help fund Universal Health Coverage?
- Webinar: Can improved tax collection systems boost public funding for health on YouTube RESYST Channel

