


### TOPIC OVERVIEW | Financing research theme

Many countries are faced with the challenge of finding adequate resources to finance their health system and provide a basic package of health services, especially in low-income countries where the burden of disease is highest and resource needs are

greatest. Increasing attention is thus being given to the question of how to increase financial resources for health – and specifically how to expand fiscal space for health. There are five ways to generate fiscal space for health set out in figure 1.

 Figure 1: Five pillars of fiscal space for health



#### Ways to increase tax revenue and efficiency in tax collection

To varying degrees, health systems around the world are reliant on government financing for health. The main source of government financing is tax revenue, thus making the tax system an important component of any effort to expand fiscal space. Economic analysis shows that low-income countries could raise their tax ratios by as much as 4% of Gross Domestic Product (GDP). However, experience in African countries suggests that this is not so easy to achieve – it either requires improvements in tax administration, increases in taxes or reductions in exemptions. Improving revenue collection may be particularly problematic for many low-income countries with large informal sectors.

The International Monetary Fund recommends several strategies to increase tax revenue including: improving basic organisational tax administration structures (simplifying the tax system); expanding the VAT base; removing opportunities for high-income individuals to avoid

tax, e.g. by strengthening detection and enforcement; and, importantly, having strong and sustained political commitment to tax reforms. Earmarked taxes can also help to increase fiscal space. These include specific taxes on goods (e.g. alcohol and cigarettes to fund health services), a payroll tax for social health insurance, and setting aside a fixed share of revenue to the health sector.

#### Making the case for health

Between even similar income countries, there is wide variation in government spending on health as a proportion of GDP (see figure 2). This suggests that many countries around the world could increase health spending by giving greater priority in the government budget to health.

On a technical level, health ministries could do more to present a convincing case to finance ministries why the health sector needs more government resources, e.g. by developing credible and comprehensive sector plans.

**Fiscal space for health refers to the capacity of government to provide additional resources for health without jeopardising its long-term financial position and economic stability.**

**It is a framework through which to explore how a government can expand the resource envelope for health in a sustainable manner.**

#### Related research

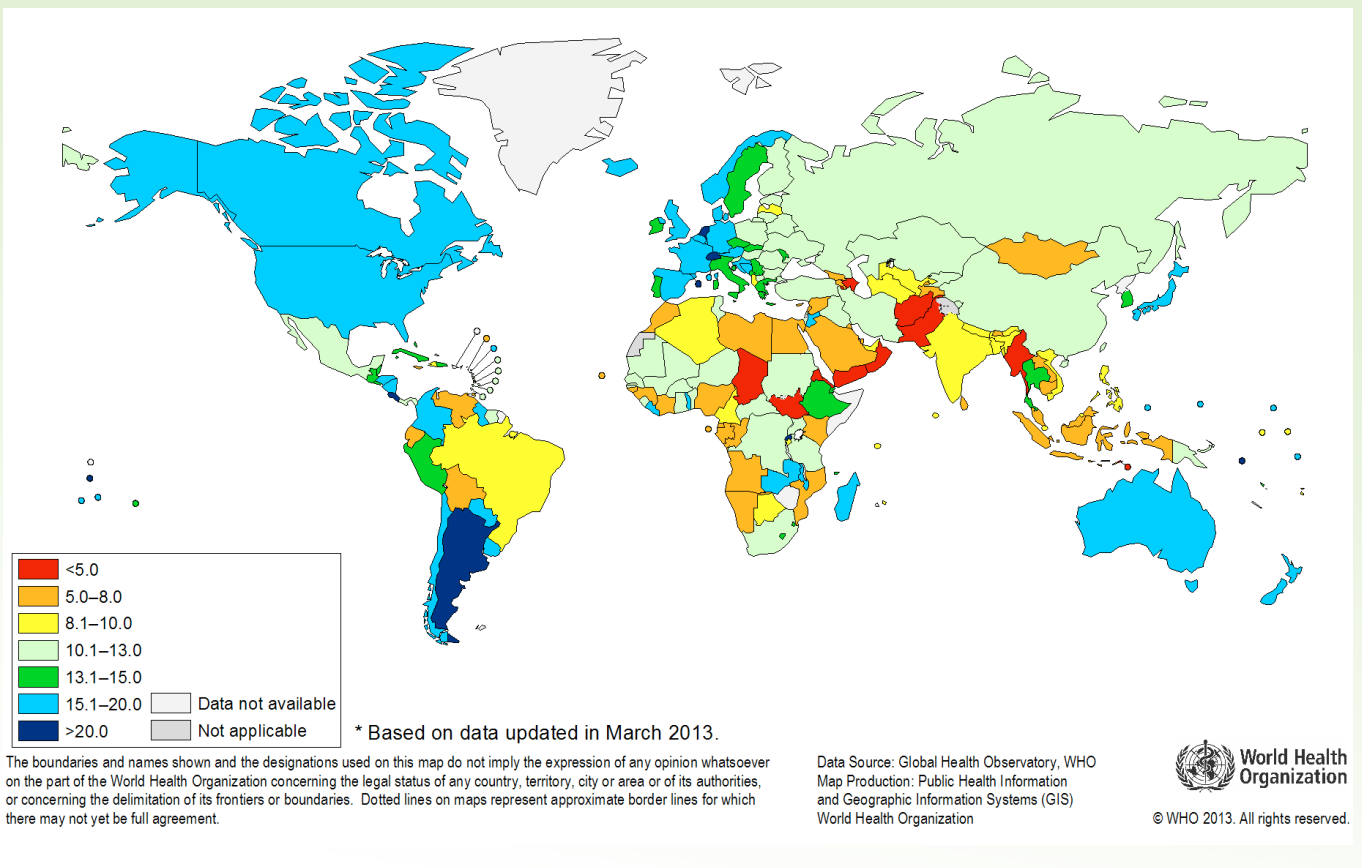
RESYST researchers are conducting studies in Kenya, South Africa and Nigeria to look at expanding fiscal space by increasing the effectiveness of tax collection systems.

The studies will use case studies of experiences of improved tax collection based on interviews with key stakeholders and document reviews.

Lessons from the three studies will be drawn together for other low and middle-income countries struggling to increase their fiscal space for health.

More information: <http://resyst.lshtm.ac.uk/research/financing>

Figure 2: General government expenditure on health as a % of total government expenditure



### The role of absorptive capacity in expanding fiscal space

Absorptive capacity refers to the ability of different government sectors to spend their allocated budget resources. It affects whether governments and donors allocate resources to health, and whether resources get used. In many low-income countries, a lack of appropriately qualified staff at each level of the health system is a major constraint to spending available health resources. However, targeted resources can relieve bottlenecks rather than exacerbate them, e.g. training of staff and the introduction of IT systems may strengthen the capacity of governments to use funds effectively.

### The influence of external aid on government spending on health

For many resource-poor countries, development assistance for health is likely to be the most feasible channel through which they are able to create more fiscal space in the health sector, particularly in the short term. However, evidence suggests that some governments who have received development assistance for health have reduced their own domestic spending on health and diverted resources to other sectors. External aid poses further risks as it can be volatile and, in countries that rely too heavily on aid to fund core government services, there can be catastrophic consequences if donors rapidly pull out of a country.

### Expanding fiscal space through efficiency improvements

Efficiency of health spending is another area in which fiscal space can be expanded. The 2010 World Health Report on Financing estimates that a staggering 20-40% of health resources are wasted. A key policy area that impacts on drives towards efficiency is purchasing. The way services in the health sector are purchased has important implications for incentives and ultimately efficiency. In some countries, the quality of governance and corruption are also important determinants of efficiency. For donors, greater efficiency through closer alignment and reduced transaction costs can also create fiscal space.

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