Understanding Fiscal Space for Universal Health Coverage

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"Fiscal Space": Original Definition

"…room in a government´s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy."

[Heller (IMF, 2005)]

Definition did not specify *fiscal space for what*; generally presumed to be for some "meritorious" purpose, e.g., for financing infrastructure investments for stimulating economic growth.

Strong link to the idea of *financial sustainability*, i.e., to the capacity of governments - in future - to finance desired expenditure programs, service debt, and ensure macroeconomic stability/solvency.

"Fiscal Space" for Health

Systematic assessment of the need, ability, and/or willingness of countries to increase public financing for health in a financially sustainable, efficient, and equitable manner

Complementary to needs assessments/costing that indicate that more public spending for health may be required; understanding why additional public financing is needed.

Forward-looking medium-term assessment; not just about finding additional resources but also about recognizing constraints to increasing public financing for health.

Situates public financing for health within broader macro-fiscal context; underscores the fact that health sector often may have to "compete" with other sectors for scarce public resources.

Assessing fiscal space implies analyzing pros and cons of different options, including learning about "good practice" examples from other countries where relevant.

Fiscal Space is an SDG

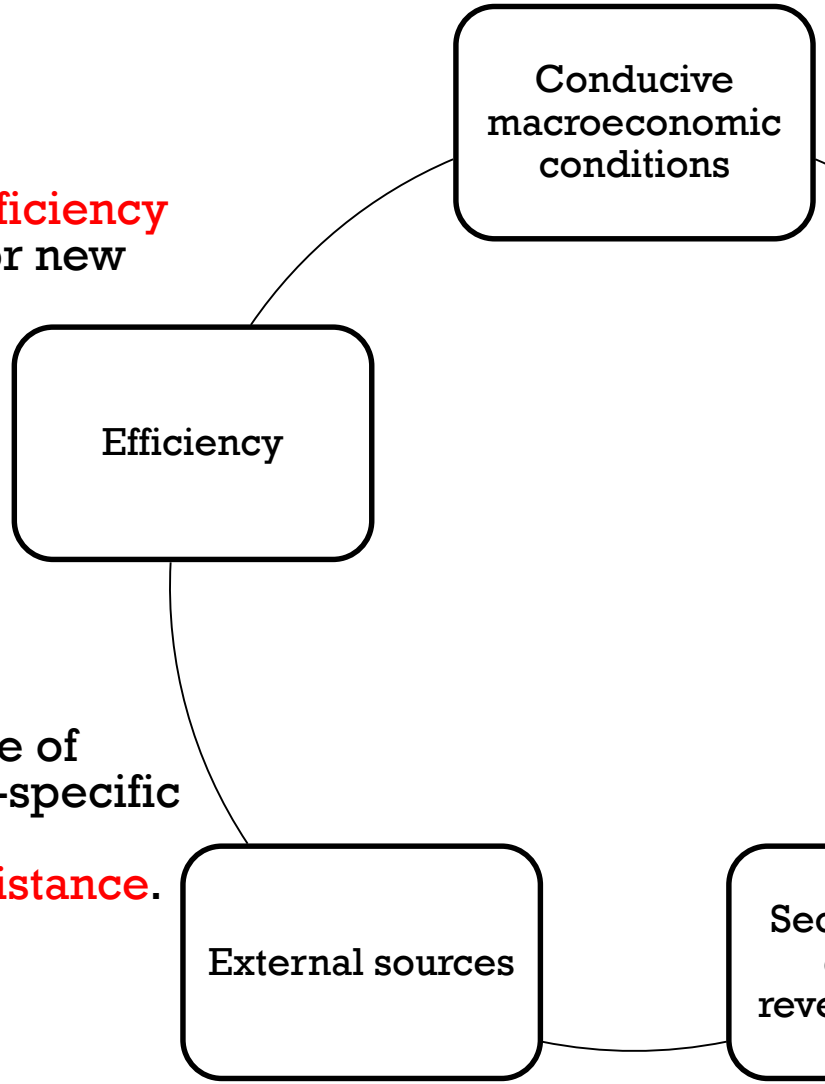
SDG 1: "ending ***poverty*** in all its forms everywhere"

Target 1.A:
Ensure significant mobilization of resources…in order to provide adequate and predictable means for developing countries…to implement programs and policies to end poverty in all its dimensions

Indicator 1.A.1:
Proportion of government resources to poverty reduction programs

Indicator 1.A.2:
Proportion of government spending on health, education, social protection

Five Pillars of Fiscal Space for Health



Deriving implications for health sector from a country's overall fiscal space framework, e.g., as a result of conducive macroeconomic conditions.

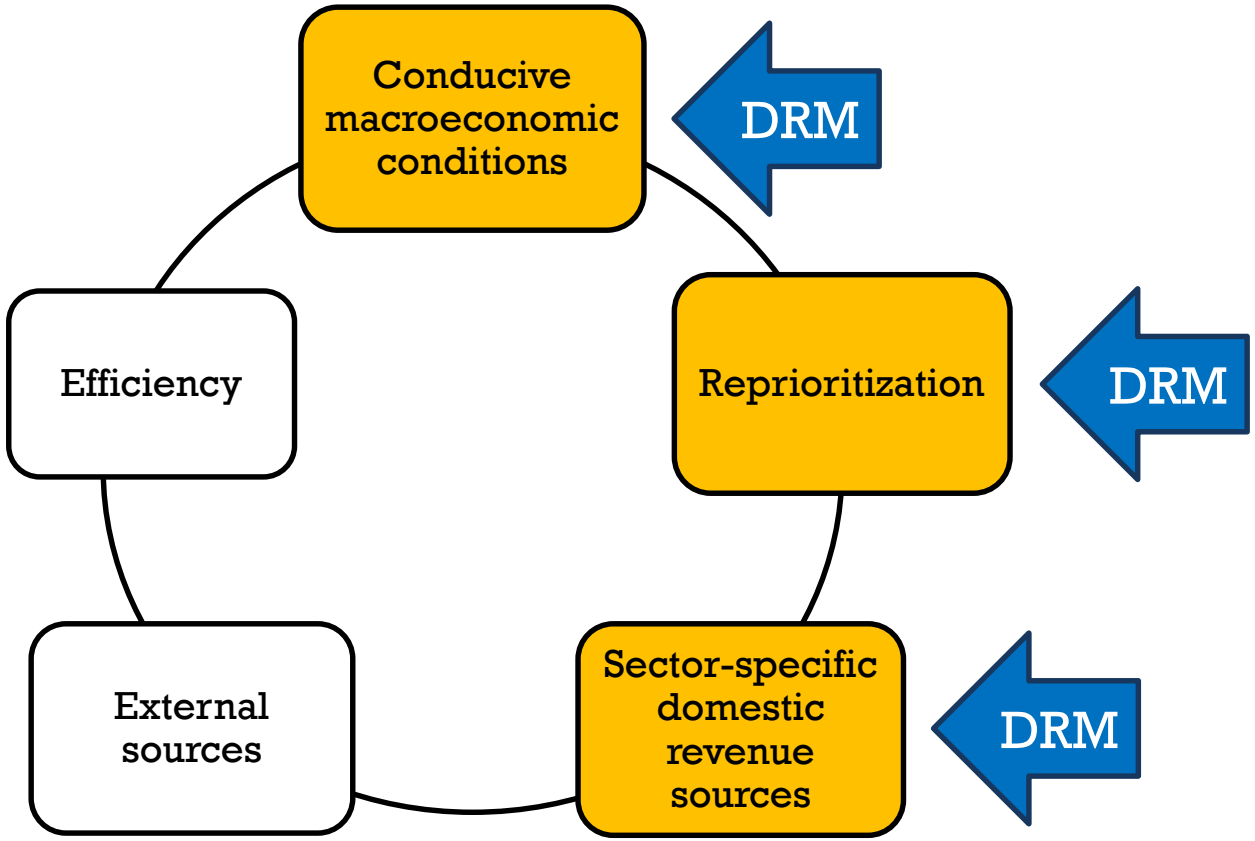
Focusing on the extent to which health might be reprioritized within the government budget.

Examining pros and cons of sector-specific means to raising additional revenues, e.g., by use of social health insurance, earmarked taxes, etc.

Evaluating the use of additional sector-specific resources from development assistance.

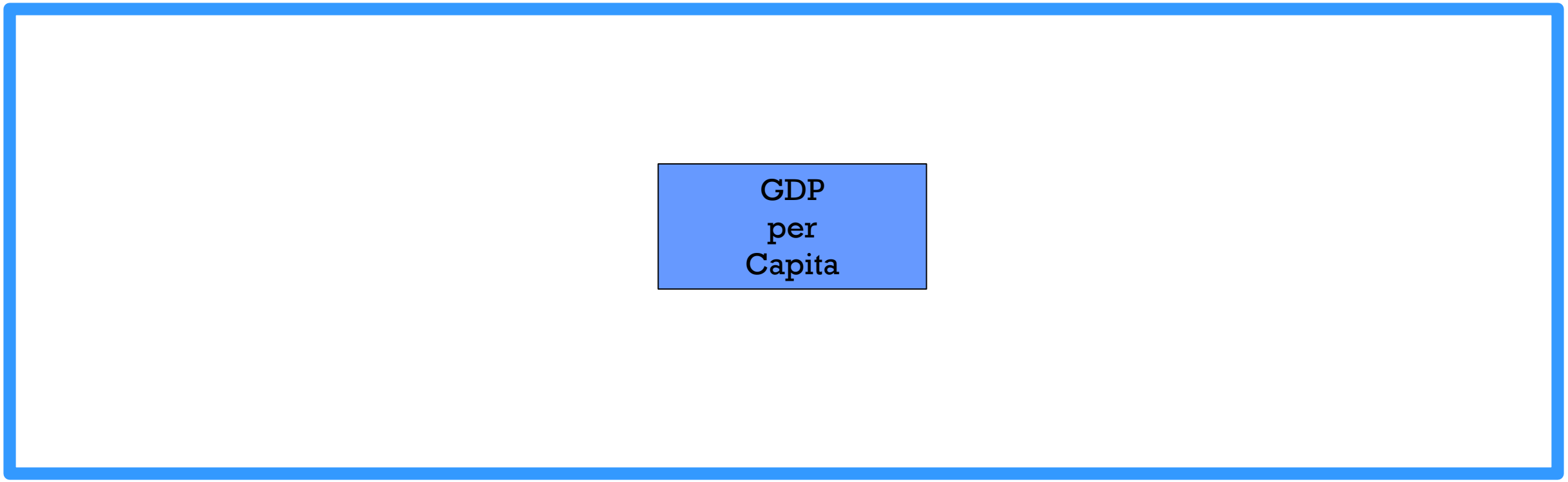
Improving the efficiency of existing and/or new sector outlays.

Fiscal Space vs Domestic Resource Mobilization



- Domestic resource mobilization (DRM) refers to public financing from domestic resources.
- DRM is a sub-component of fiscal space, focusing on pillars I, II, and III.
- Some countries give more emphasis to DRM because it is more predictable, less volatile than external aid, and promotes debt sustainability.

Mathematics of Public Spending on Health



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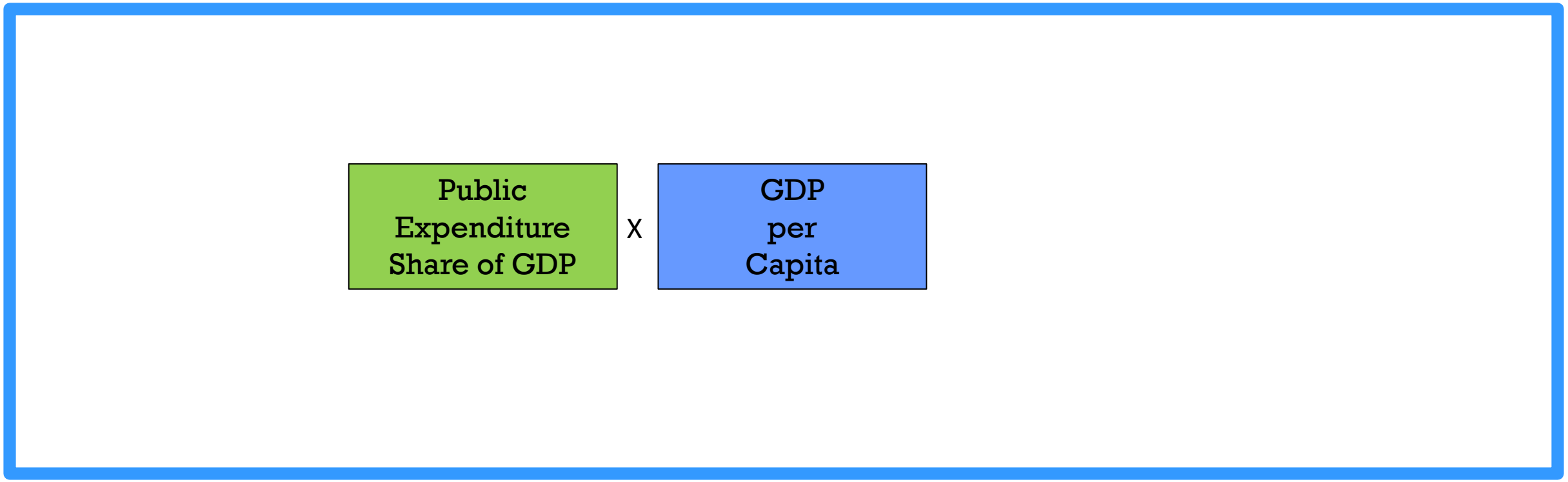

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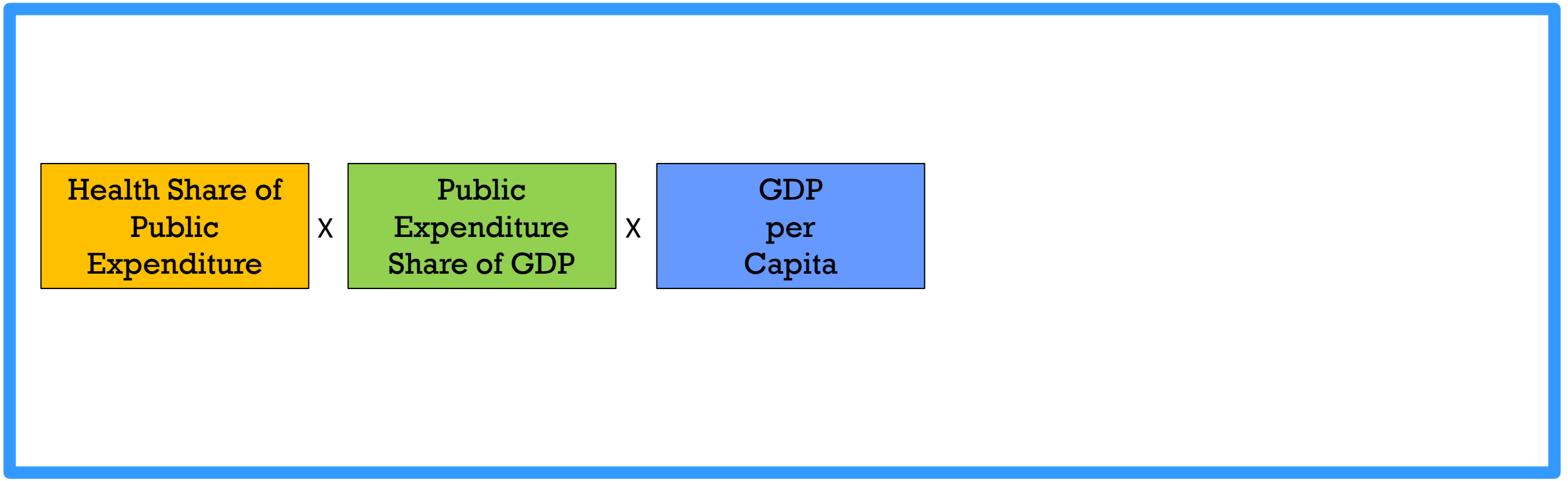

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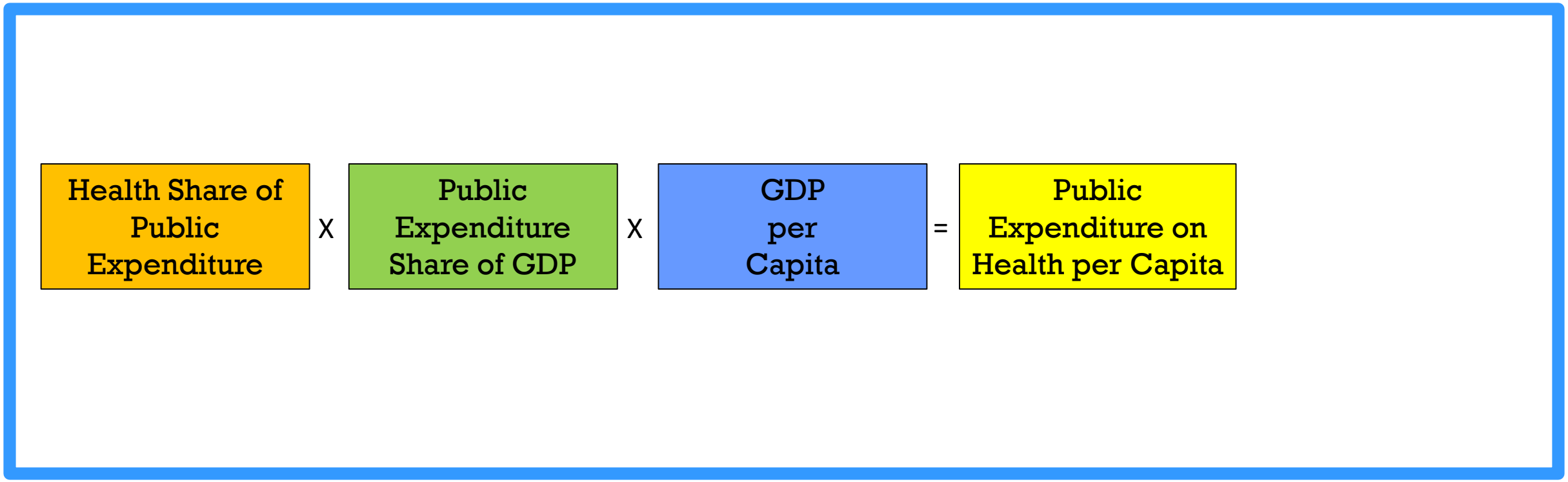

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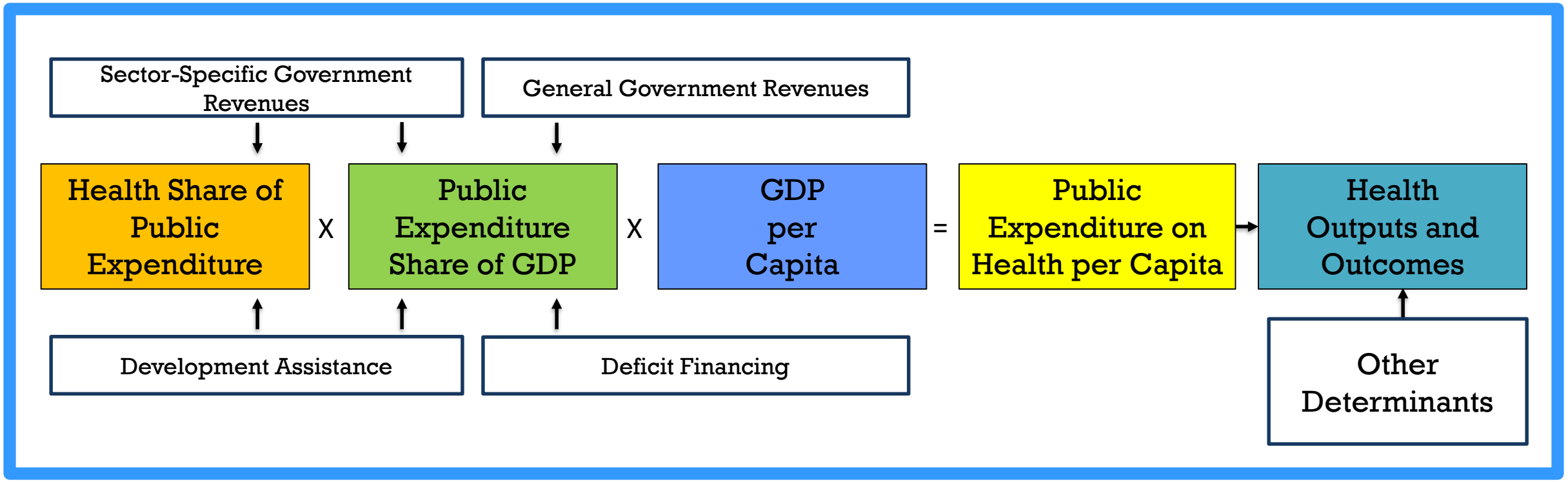
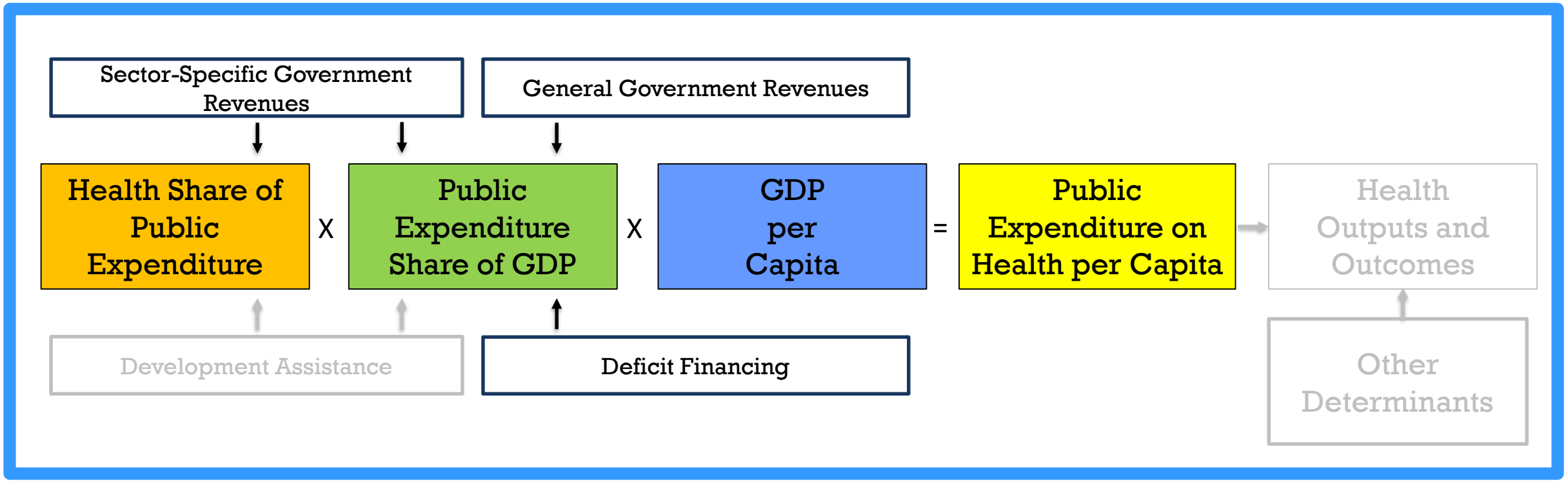


Fiscal Space vs Domestic Resource Mobilization



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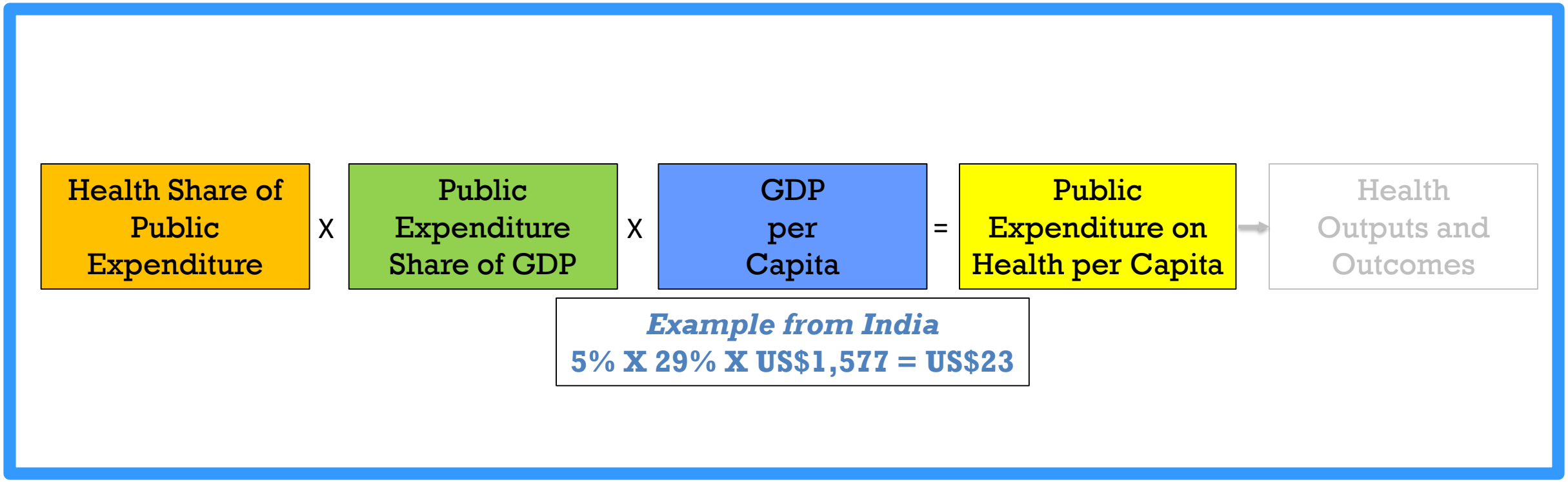
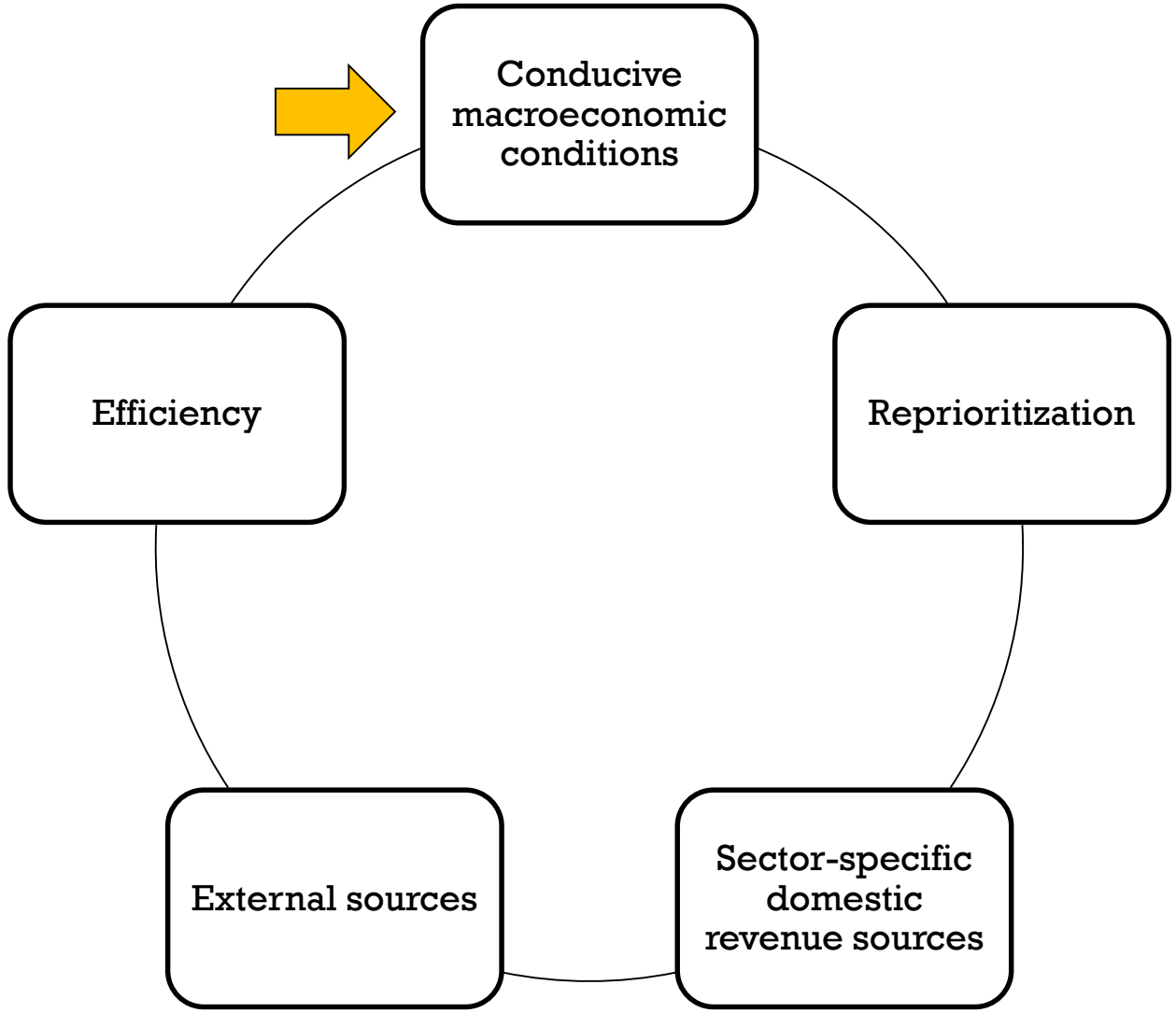


Five Pillars of Fiscal Space for Health

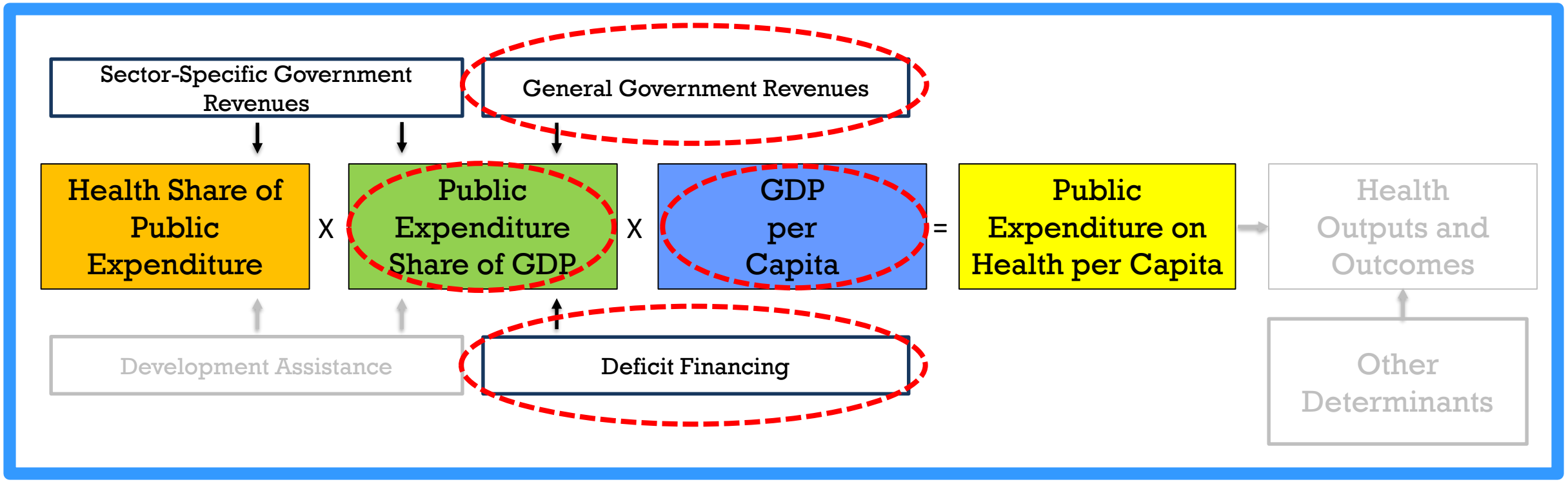


I. Conducive Macroeconomic Conditions

- Assessment of macro-fiscal context of financing for health:
  - Interplay between broader macroeconomic environment and potential impact on public financing for health.
  - Can be used as a first step in fiscal space assessment to derive business-as-usual scenarios.

- Focus is on impact of economic growth and increases in general government expenditures (due to an increase in general government revenues and/or borrowing) on public financing for health.
  - Impact of other factors such as deficit, debt, informality, unemployment, inflation, etc., can also be assessed.

Conducive Macroeconomic Conditions



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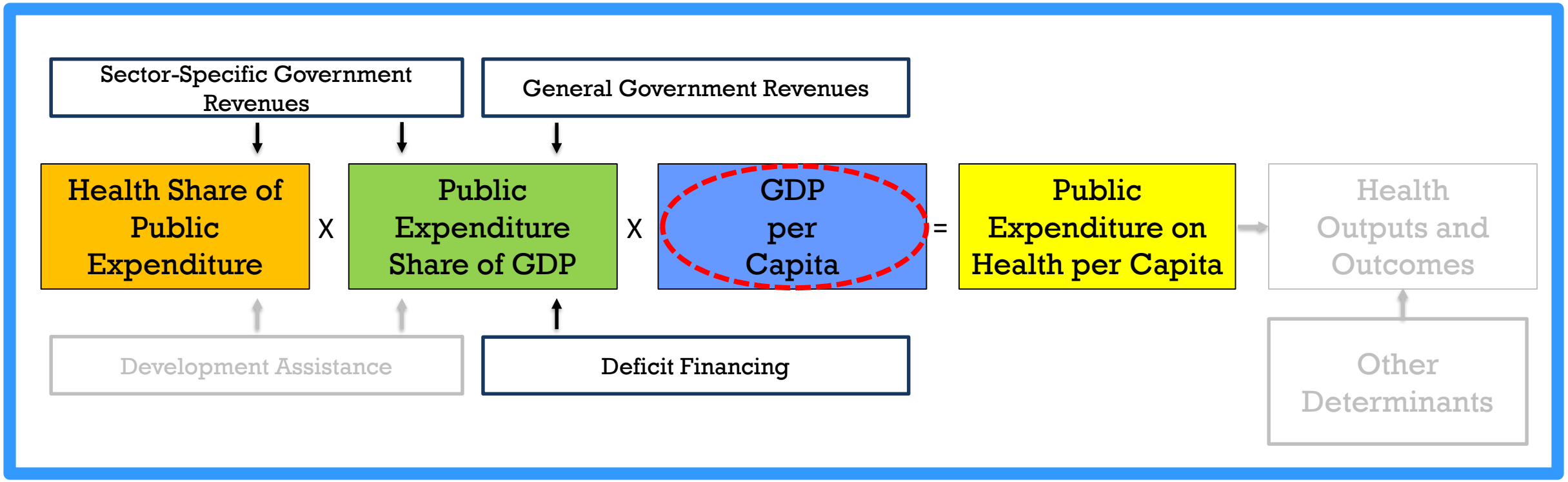

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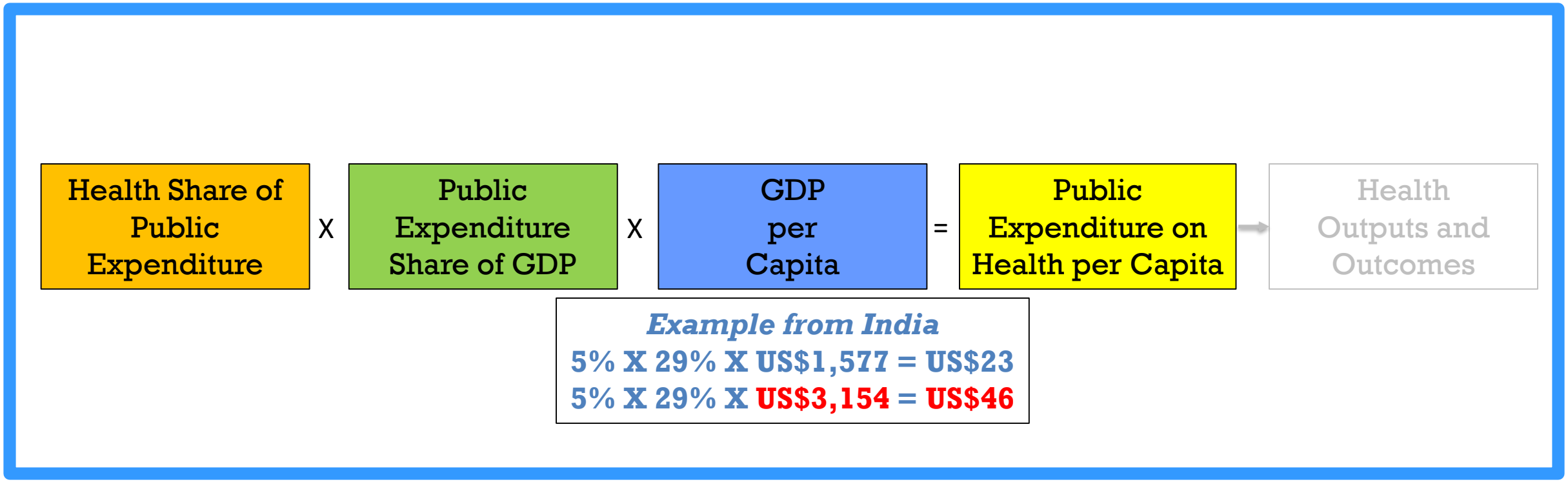
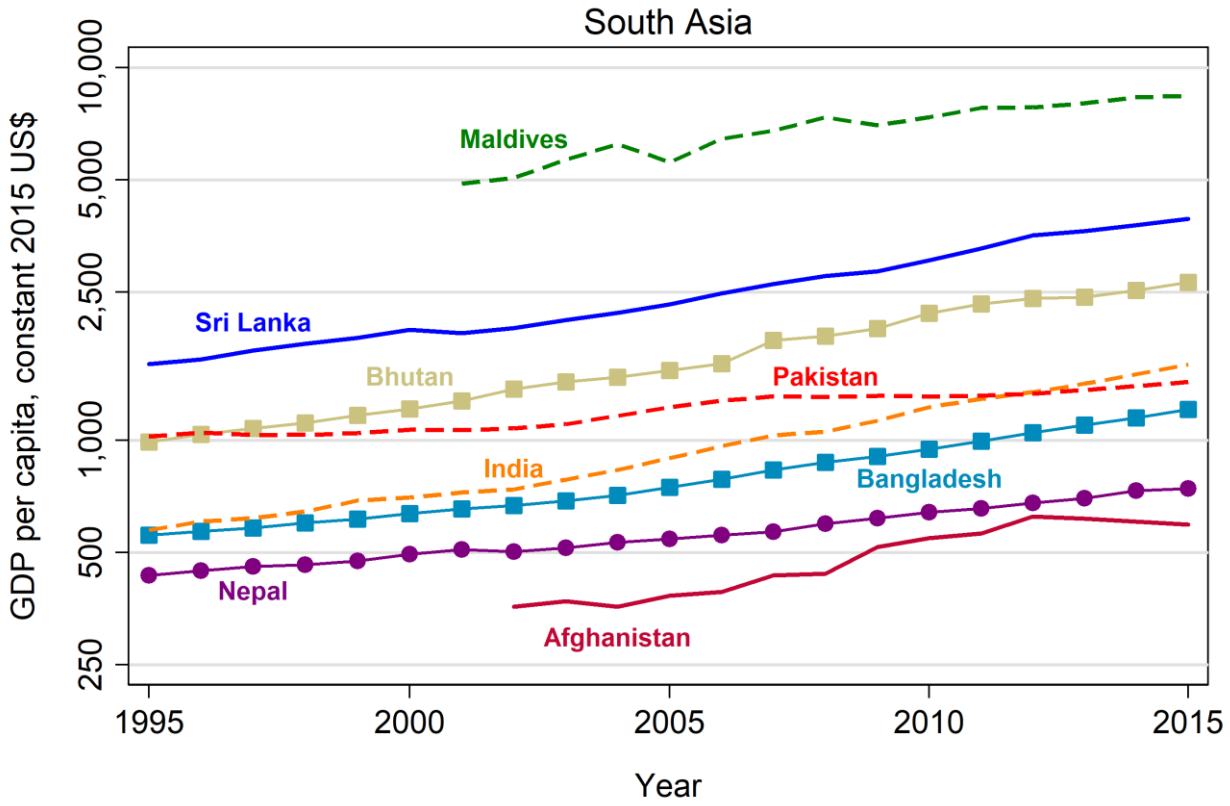
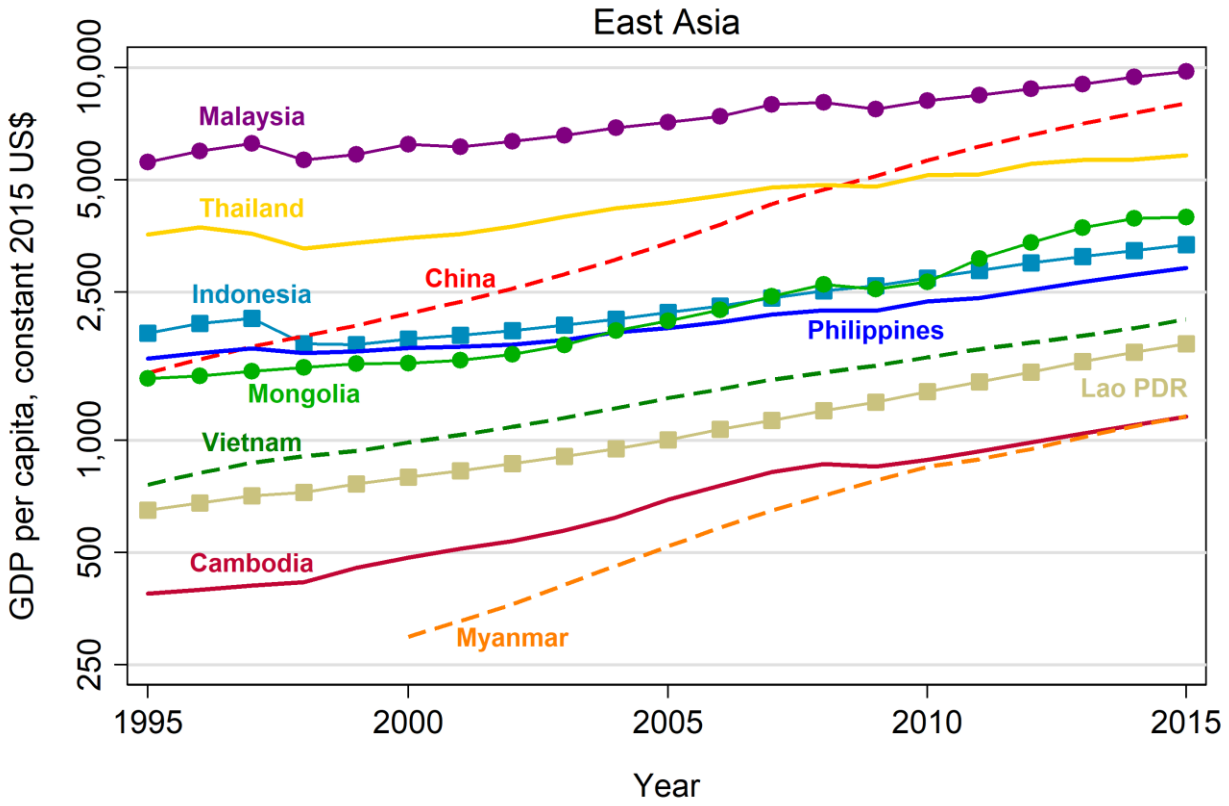


GDP Per Capita, 1995-2015

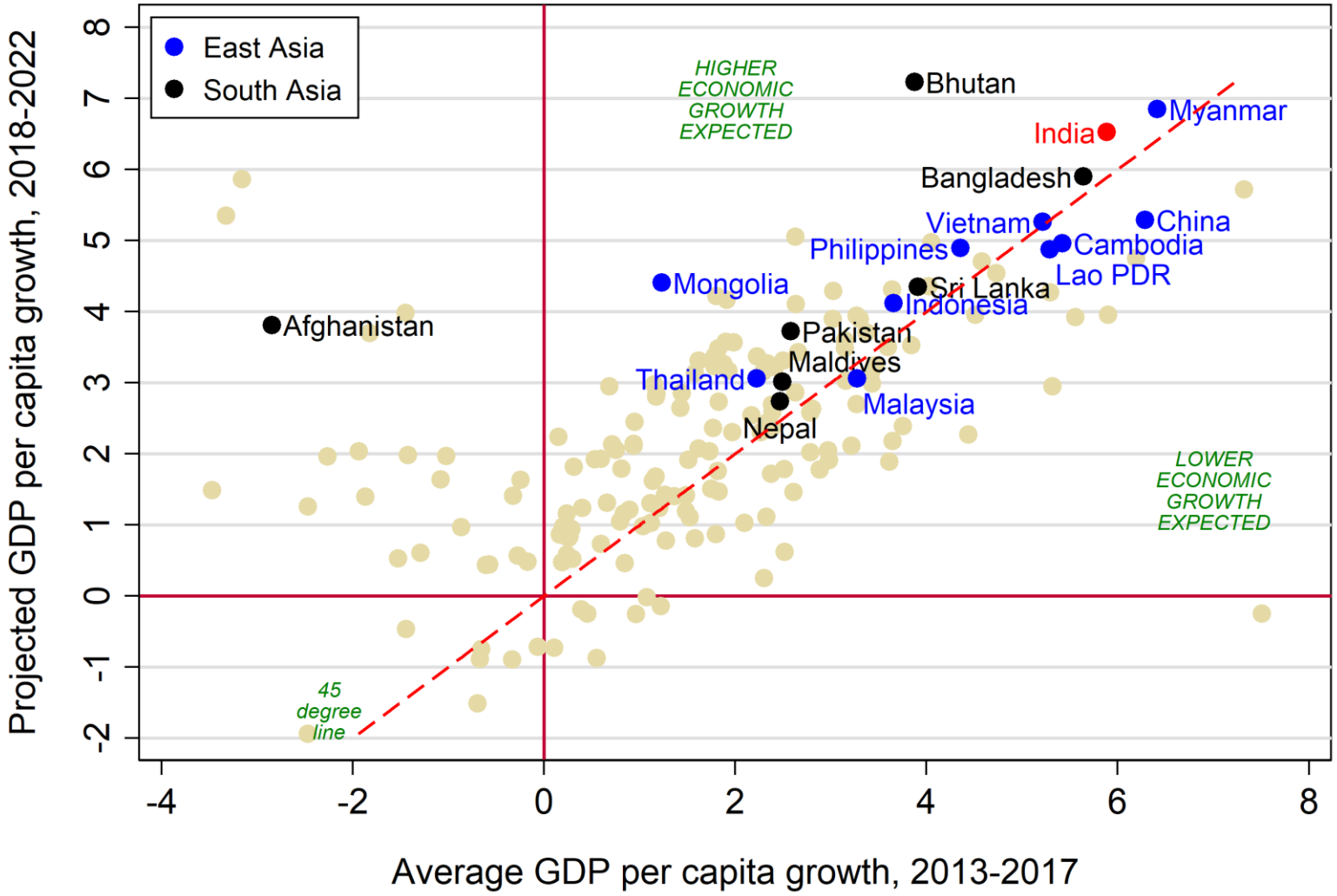


Source: World Development Indicators



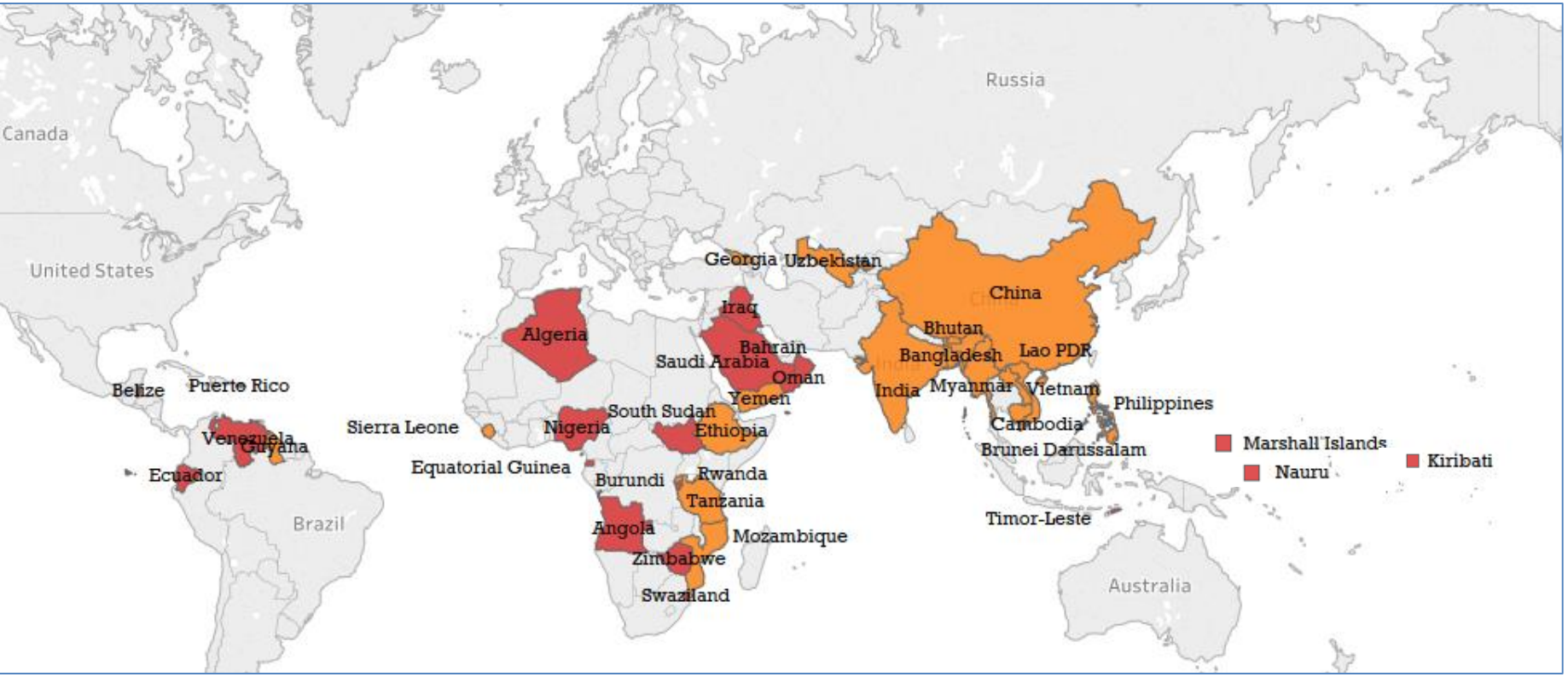
Source: World Development Indicators

Actual/Projected Economic Growth, 2013-2022



Source: IMF World Economic Outlook

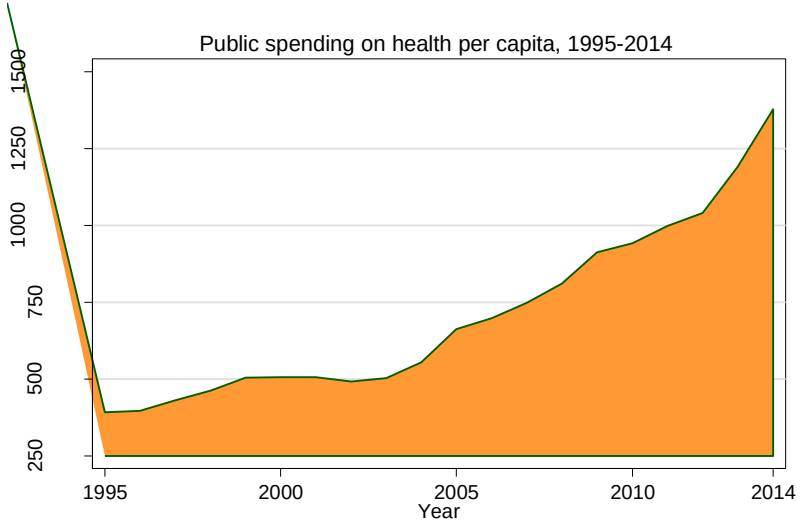
"Rule of 70": Economic Growth is Key for Fiscal Space



- 70 divided by the economic growth rate gives the number of years it will take economy to double.
- Example: 7% growth rate → economy will double in 10 years; *ceteris paribus*, public spending on health will also double in 10 years.

India

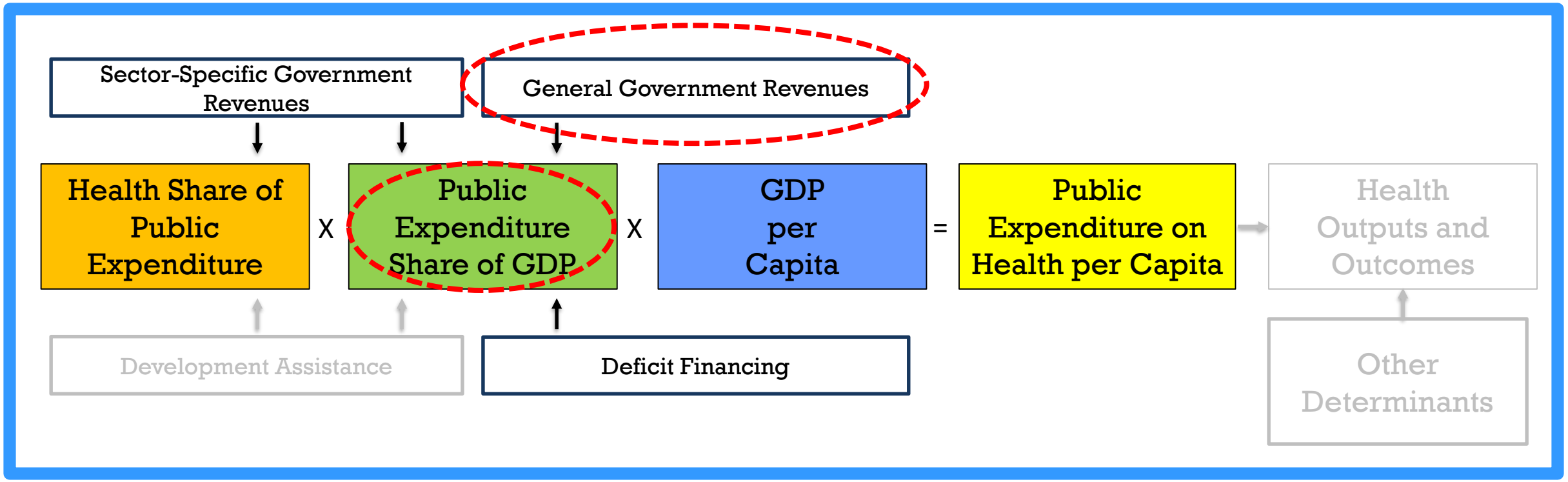
Source: WHO



Source: WDI & WHO
Note: Data are in constant 2014 LCU

- Public spending on health share of GDP fluctuated around 1% of GDP over 1995-2010.
- However, public spending on health tripled in real per capita terms over the same period.
- This is because GDP per capita grew at over 5%. India example underscores the importance of strong economic growth for fiscal space for health, even if nothing else changes.
- Additionality of public resources for health underpinned expansion of the massive National Rural Health Mission (NRHM) program in India, a large infusion of financing for improvements of primary care.

Conducive Macroeconomic Conditions

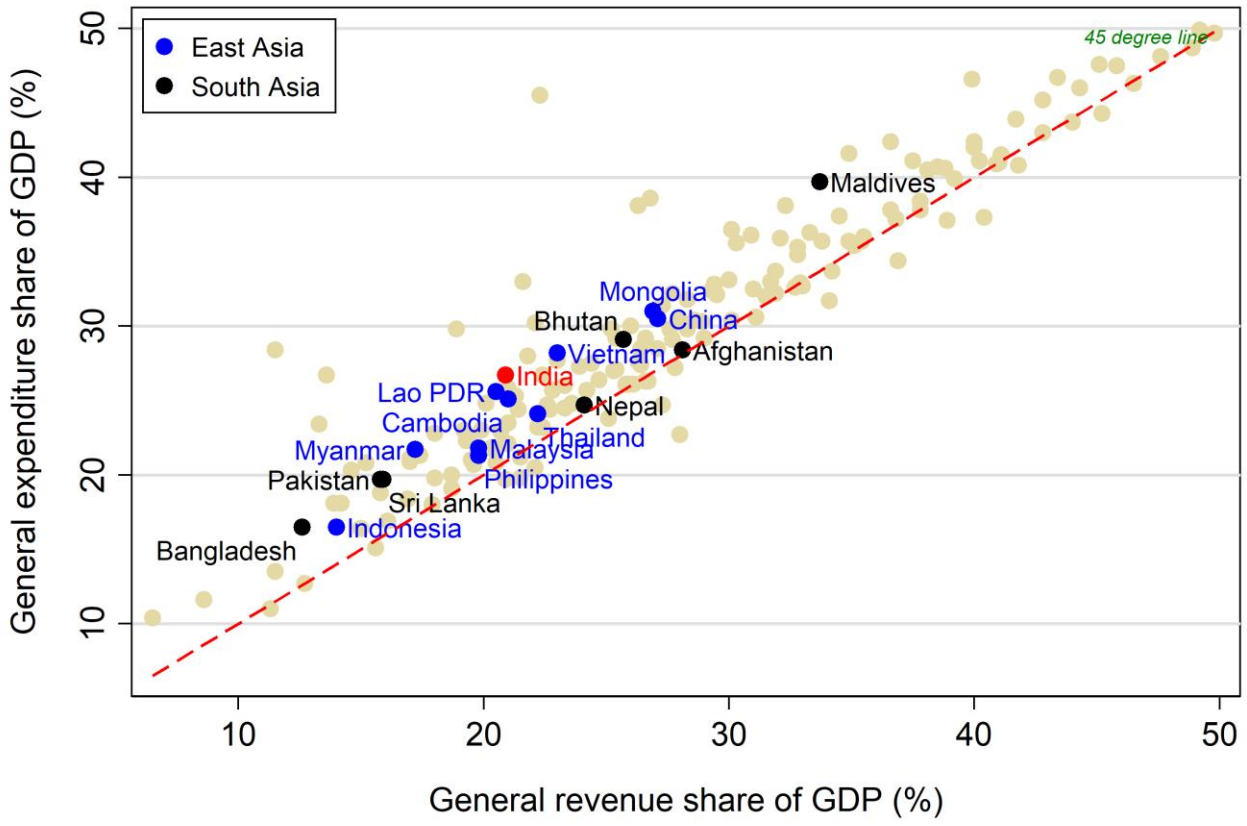


General Government Revenues

- "Direct" taxes (generally more progressive)
  - Personal income taxes.
  - Corporate taxes.
  - Property/wealth taxes.
- "Indirect" taxes (generally less progressive)
  - Sales/excise taxes.
  - Value-added taxes.
  - Import/export taxes.
- Other sources of government revenue
  - Natural resources.
  - Grants (e.g., foreign aid).
  - Public enterprises.

Income classification	Total revenue	Direct taxes	Indirect taxes	Grants
Low income	21%	7%	9%	4%
Lower middle income	30%	9%	12%	2%
Upper middle income	32%	10%	12%	2%
High income	39%	19%	12%	0.2%

Government Revenues & Expenditures 2018-2022



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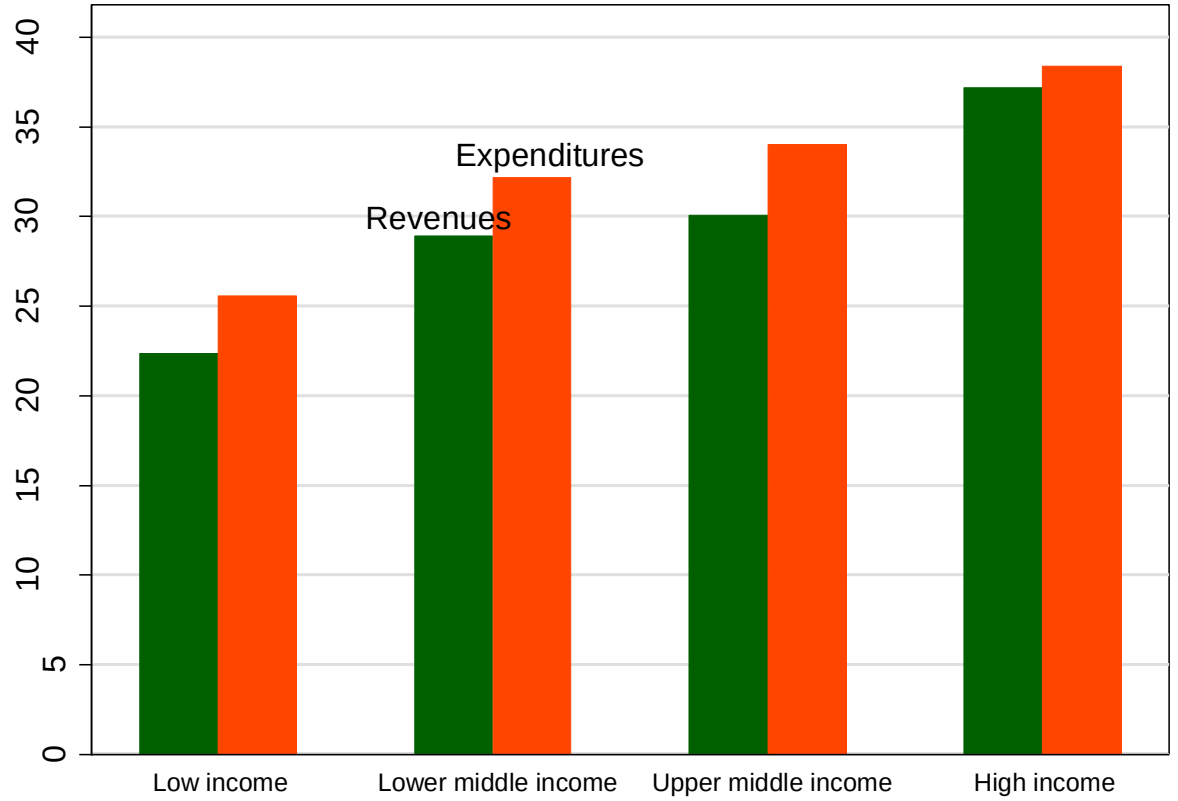

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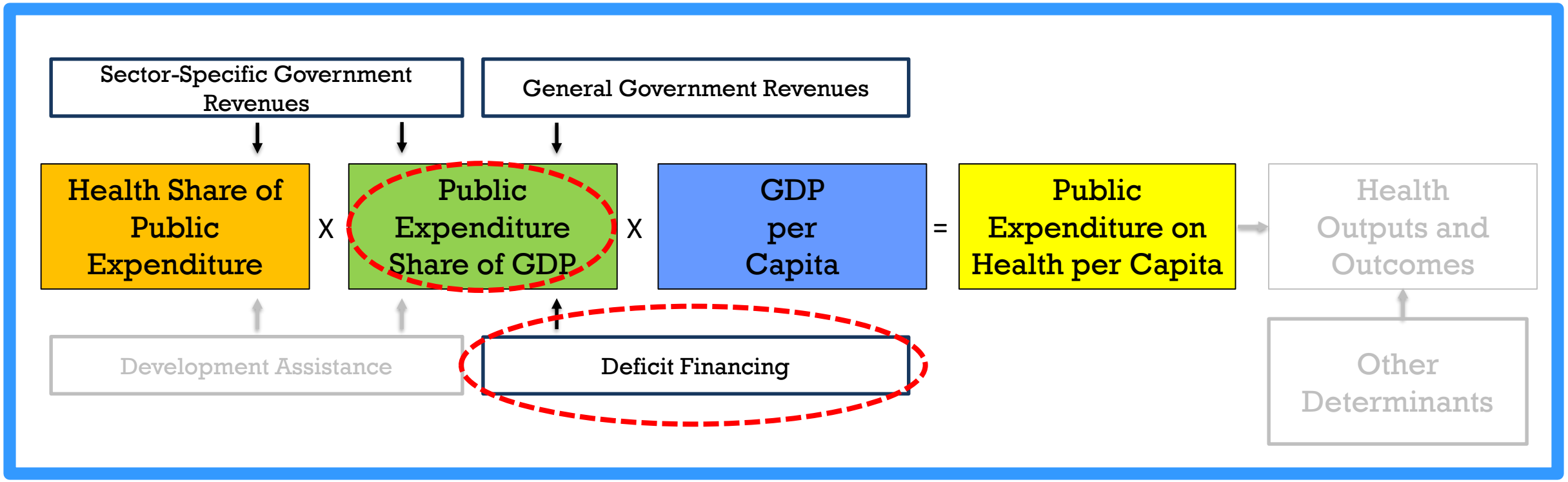
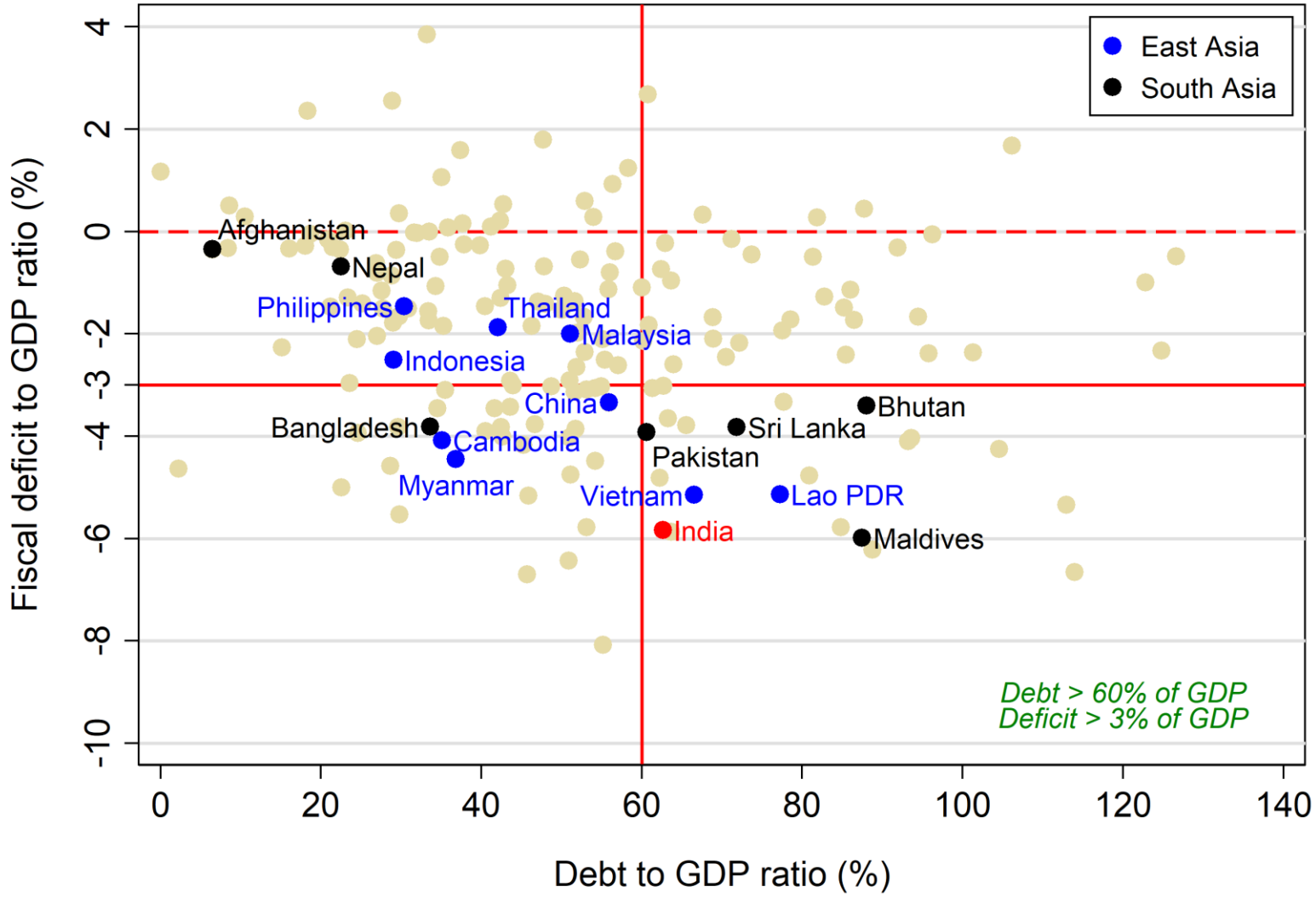


Borrowing for Health: Debt-Deficit Projections 2018-2022



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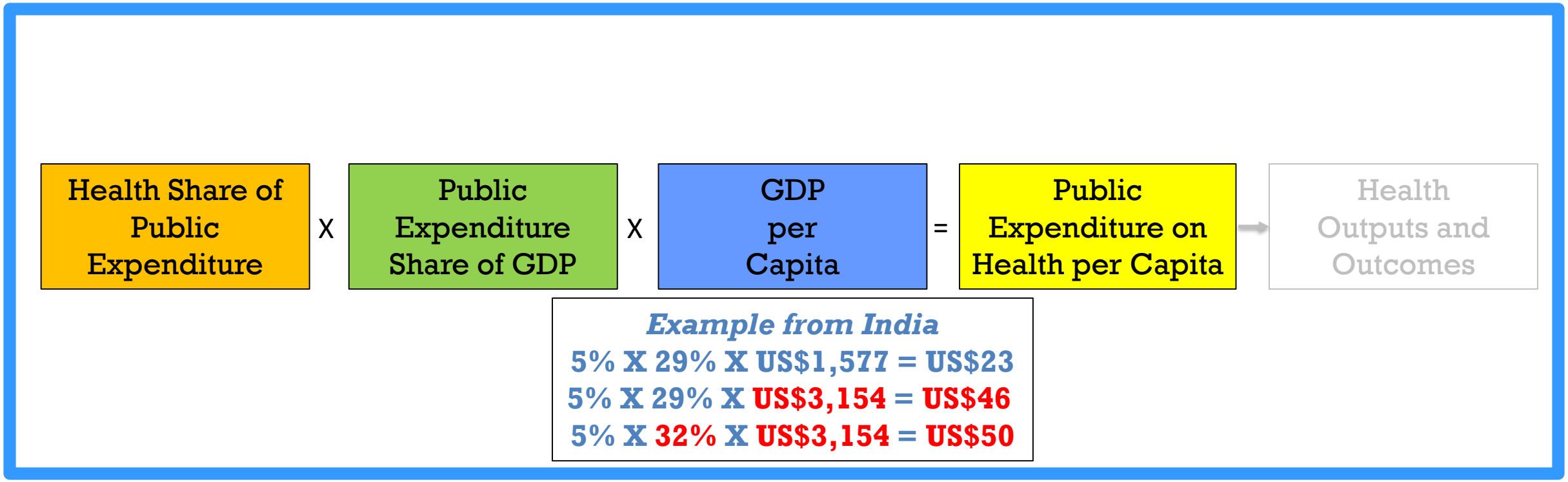

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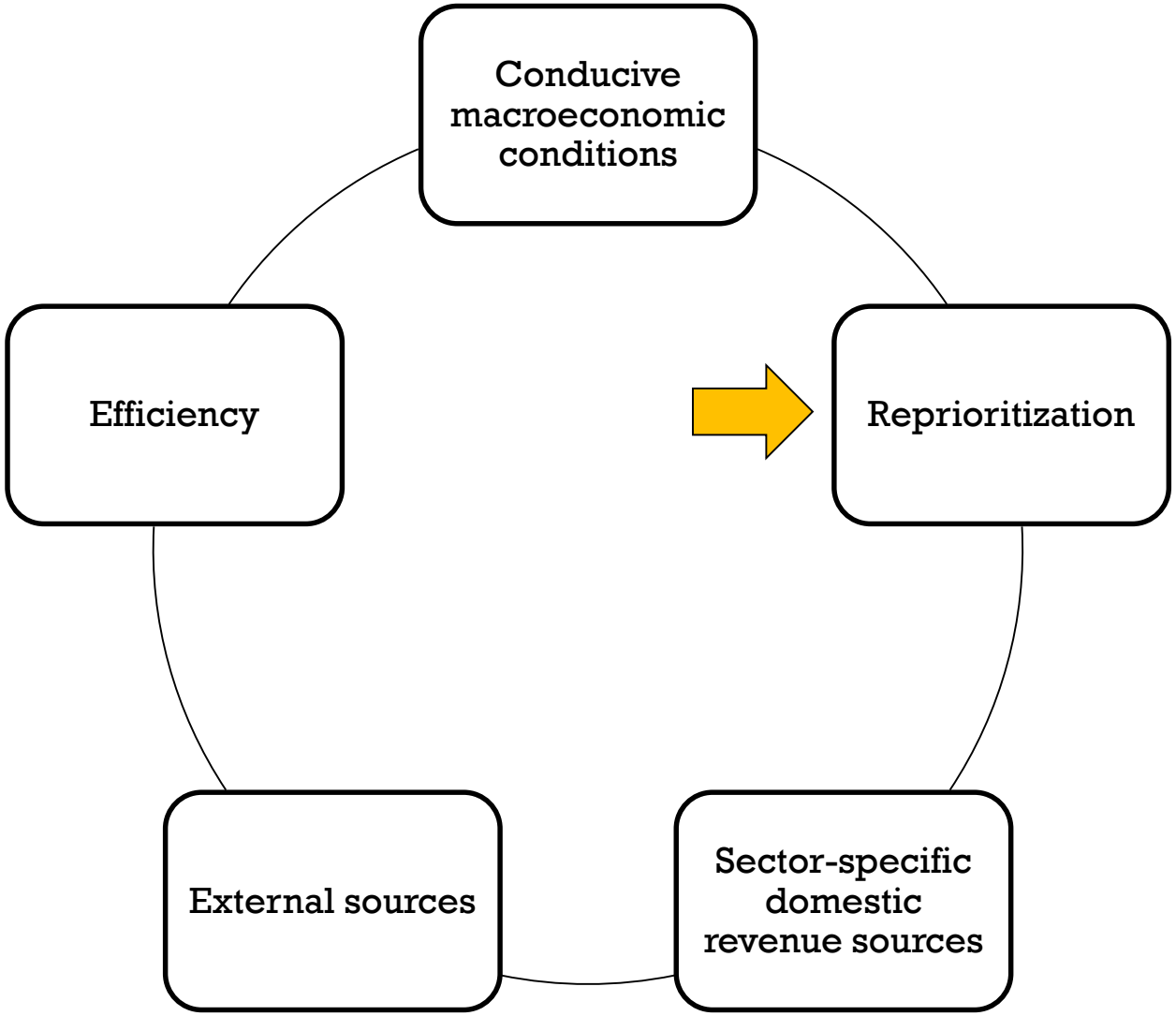


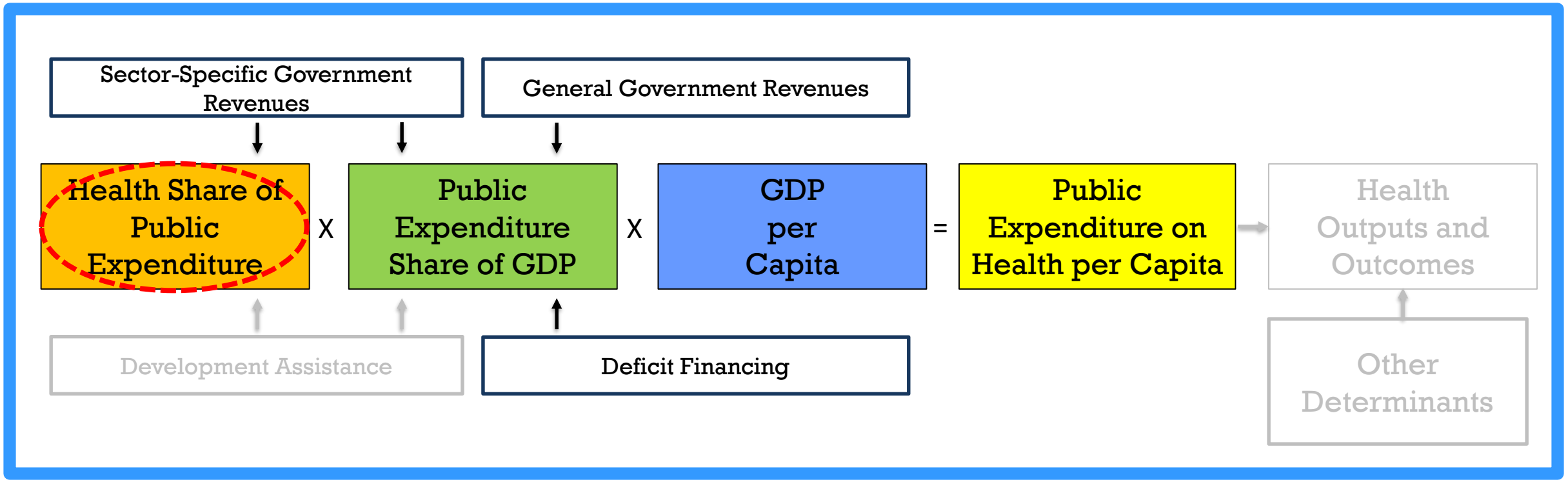
II. Reprioritizing Health

- Increasing the share of government expenditures on health -- often a key signal of overall government commitment to health – can be key for fiscal space.

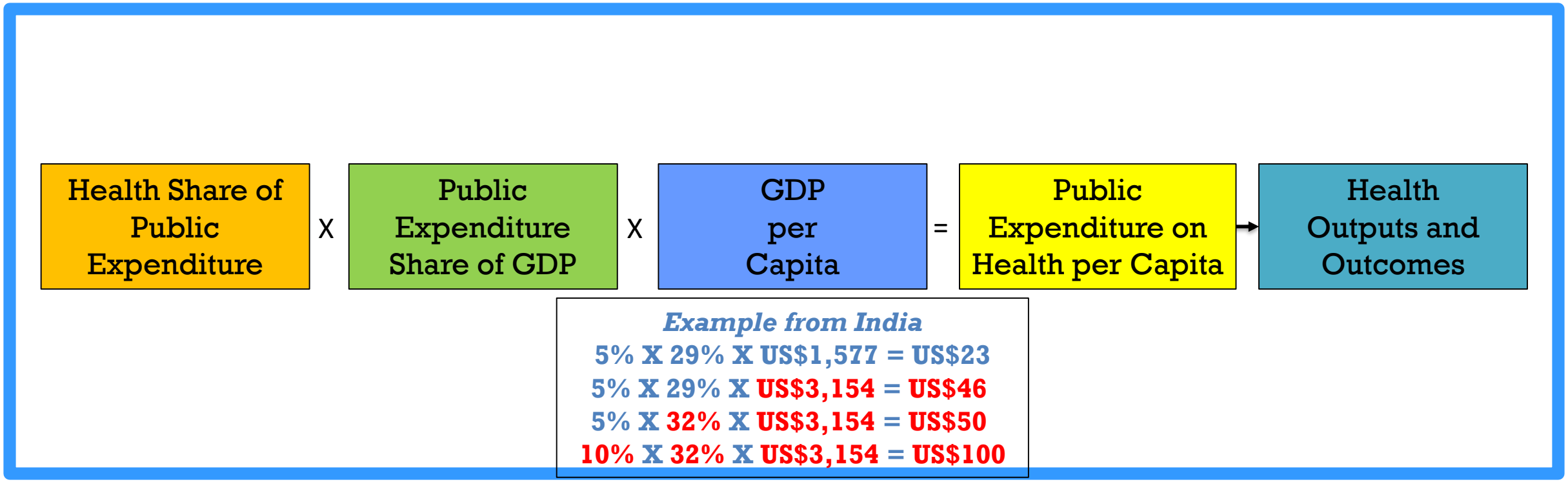
- Pits health against competing priorities: e.g., other sectors such as education, infrastructure, agriculture, etc..

- Key challenge being that health is often perceived by ministries of finance/planning as being inefficient and non-productive.

Reprioritization



Reprioritization



Share of Government Expenditure

Region	Share of government expenditure (%)			
	Health	*Education*	*Military*	*Debt Service*
Latin America & Caribbean	12%	15%	7%	10%
East Asia & Pacific	12%	17%	8%	5%
Sub-Saharan Africa	10%	18%	9%	8%
Europe & Central Asia	10%	15%	10%	3%
Middle East & North Africa	8%	18%	12%	5%
South Asia	7%	14%	15%	11%
Global	*11%*	*15%*	*9%*	*5%*

- Globally, large variations in extent to which health is prioritized in government budgets: ranges from 3% to almost 30%.
- Political economy considerations key; results-focused reform efforts – in particular efforts to explicitly expand coverage and improve quality of spending as opposed to efforts focused only on government budgetary targets – are more likely to result in sustained and politically-feasible reprioritization.
- Efficiency considerations are important: efficiency is in itself a source of effective fiscal space; but can also be important for attracting additional public resources from ministries of finance and external sources.

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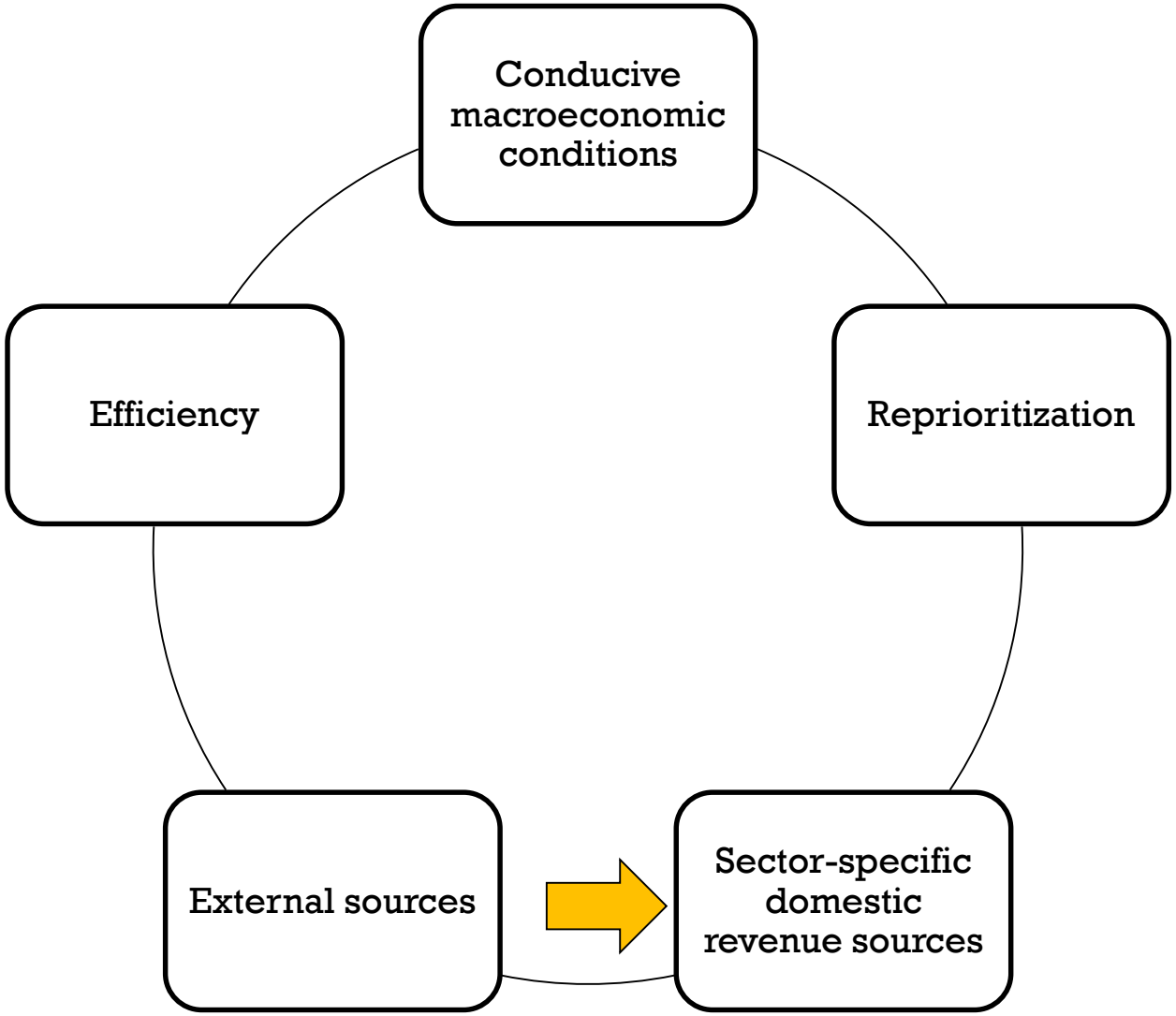
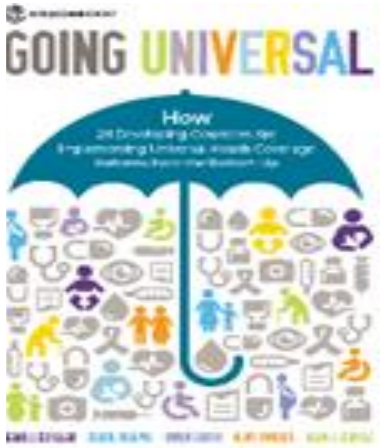


III. Sector-Specific Revenue Sources

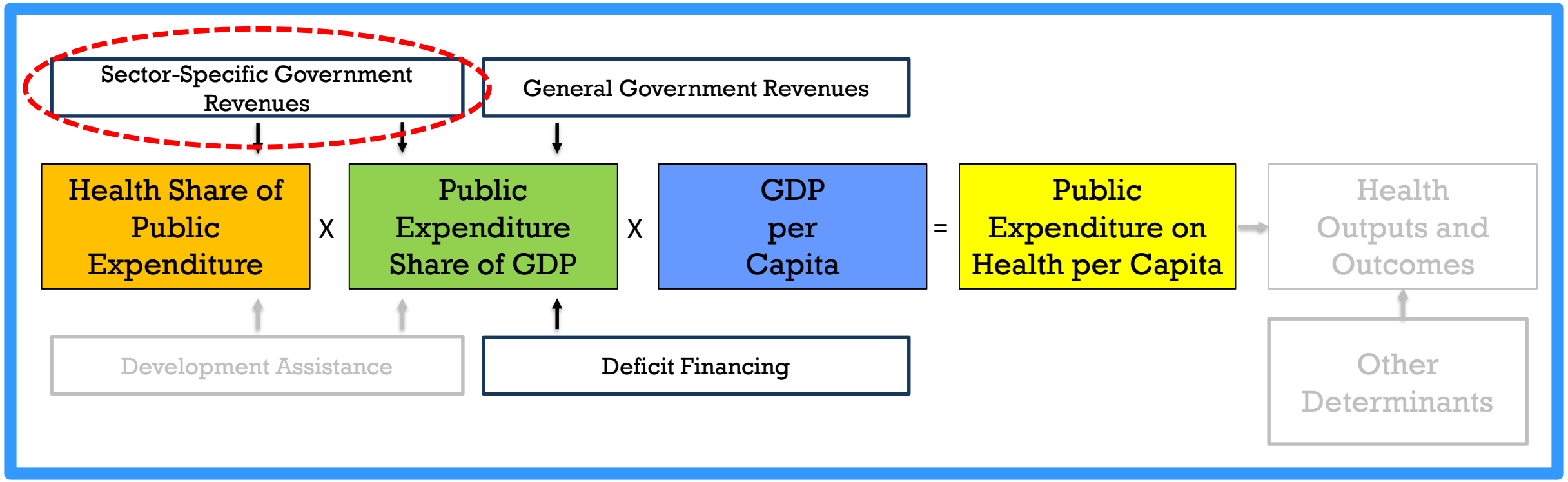
- Earmarked revenues (e.g., social health insurance, "sin" taxes, earmarking VAT, etc.) examples of sector-specific revenue sources for health.



Going Universal book found prevalence of earmarking for health in several countries: Guatemala; Chile; Ghana; Mexico; Philippines; Tunisia; Colombia, etc.

- Key questions: why earmark, and are earmarked resources for health truly consequential and additional?

Sector-Specific Revenues



Sector-Specific Sources of Revenue: Earmarked Payroll Taxes

Social health insurance share of total health spending	
Monaco	87%
Czech Republic	78%
Croatia	78%
Netherlands	73%
Japan	72%
France	71%
Estonia	69%
Slovenia	69%
Luxemburg	68%
Germany	68%

- Social health insurance (SHI) often introduced as a way to collect additional revenues for health, especially from employers.
- Increasing contribution rates from formal sector often a key fiscal space question.
- Challenge in implementing mandates and collecting contributions in economies with large levels of informality.
- Interplay: social health insurance and informality.

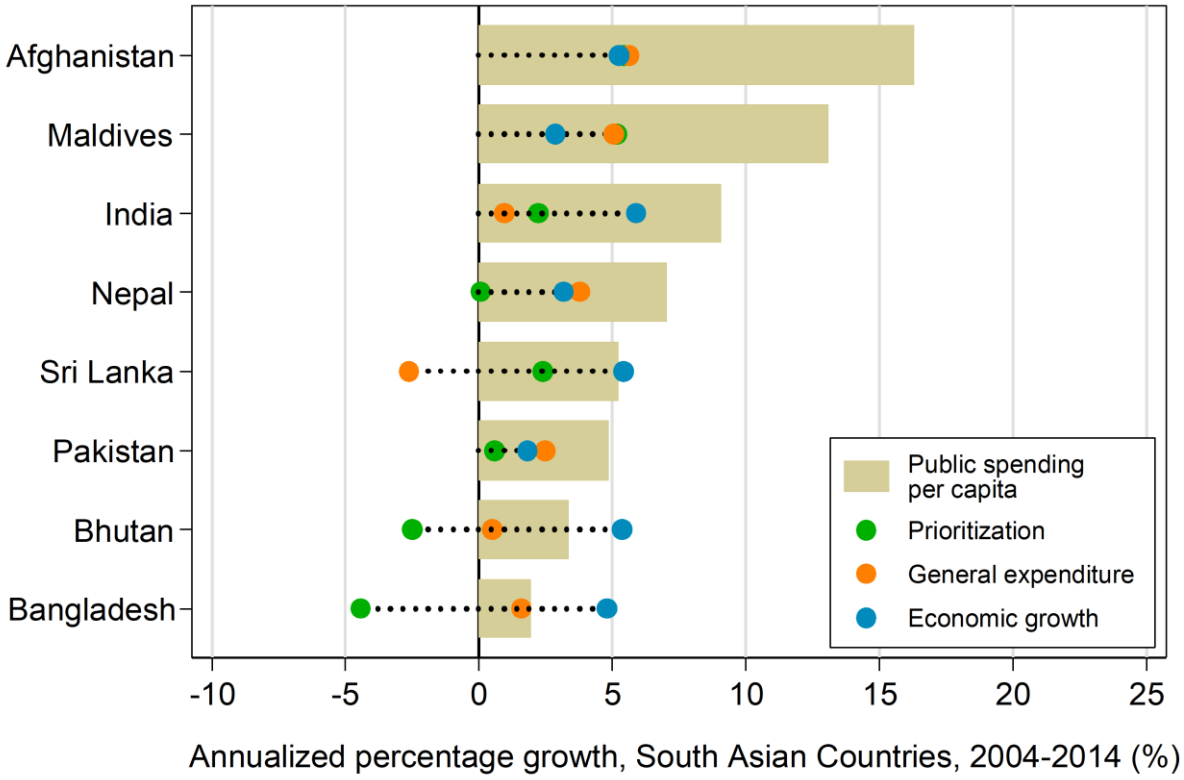
Sector-Specific Sources of Revenue: Non-Payroll Earmarks

- Use of "sin taxes" on tobacco and alcohol increasingly prevalent for financing health.
- Justified often both from a health and fiscal perspective, despite being regressive.
- Other forms of innovative "financing": earmarking of other taxes such as VAT; natural resource revenue earmarks, etc.
- Impact on revenues can vary, dependent on elasticity of response.
- Not clear what is behind growing trend towards earmarking revenues, especially in health sector; earmarking revenues to reprioritize sector?
- Most forms of earmarking unpopular with ministries of finance: introduces rigidities in allocations across sectors.

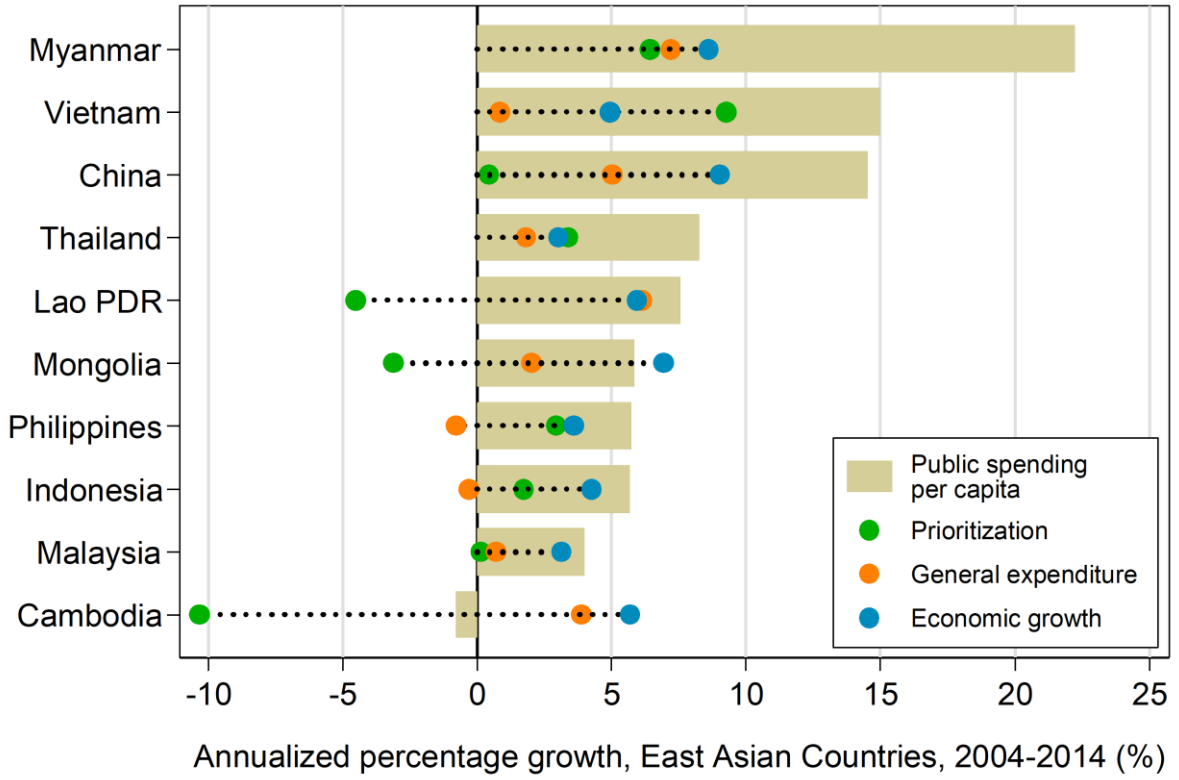
Examples of "Innovative Financing"

Option	Countries
Tax on remittances	Mexico, Kenya
Financial transaction tax	Argentina, Brazil, Zambia
Value-added tax	Ghana
Turnover tax on mobile phones	Gabon
Airline ticket levy	Cameroon, Congo, Madagascar, Mali, Mauritius, Niger
Excise tax on extractive industries	Botswana (mining)
Sin taxes	Philippines, Thailand,

Public Expenditure on Health Growth Accounting (10 years)



Source: World Development Indicators; WHO Government Health Expenditures Database; IMF World Economic Outlook



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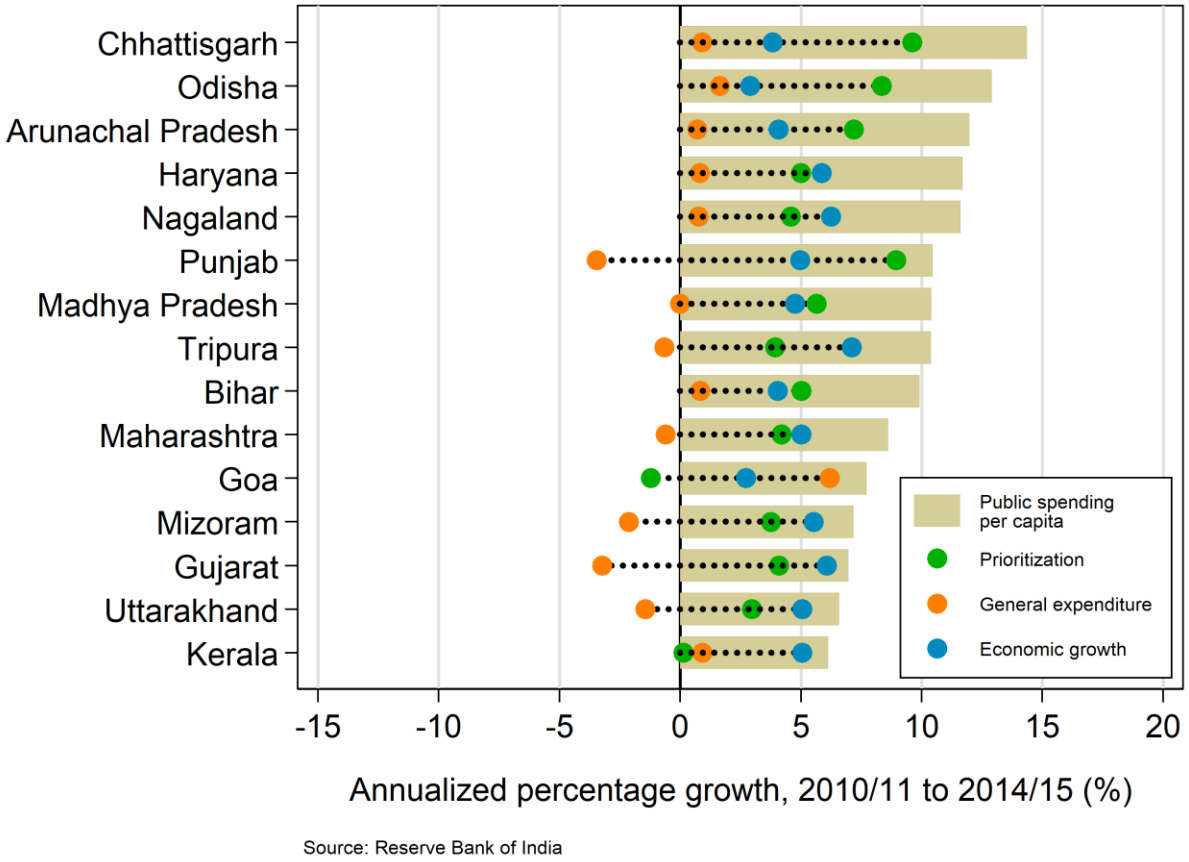
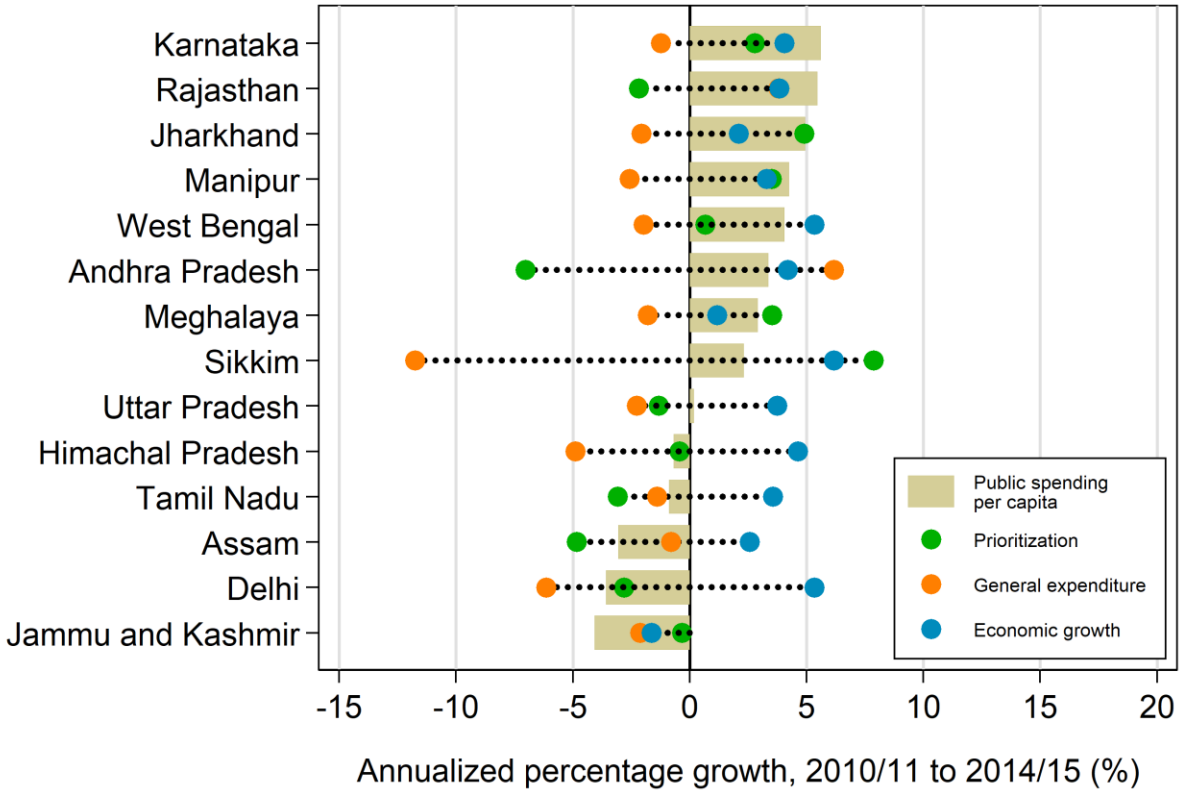
Public Expenditure on Health Growth Accounting, Indian States (5 years)

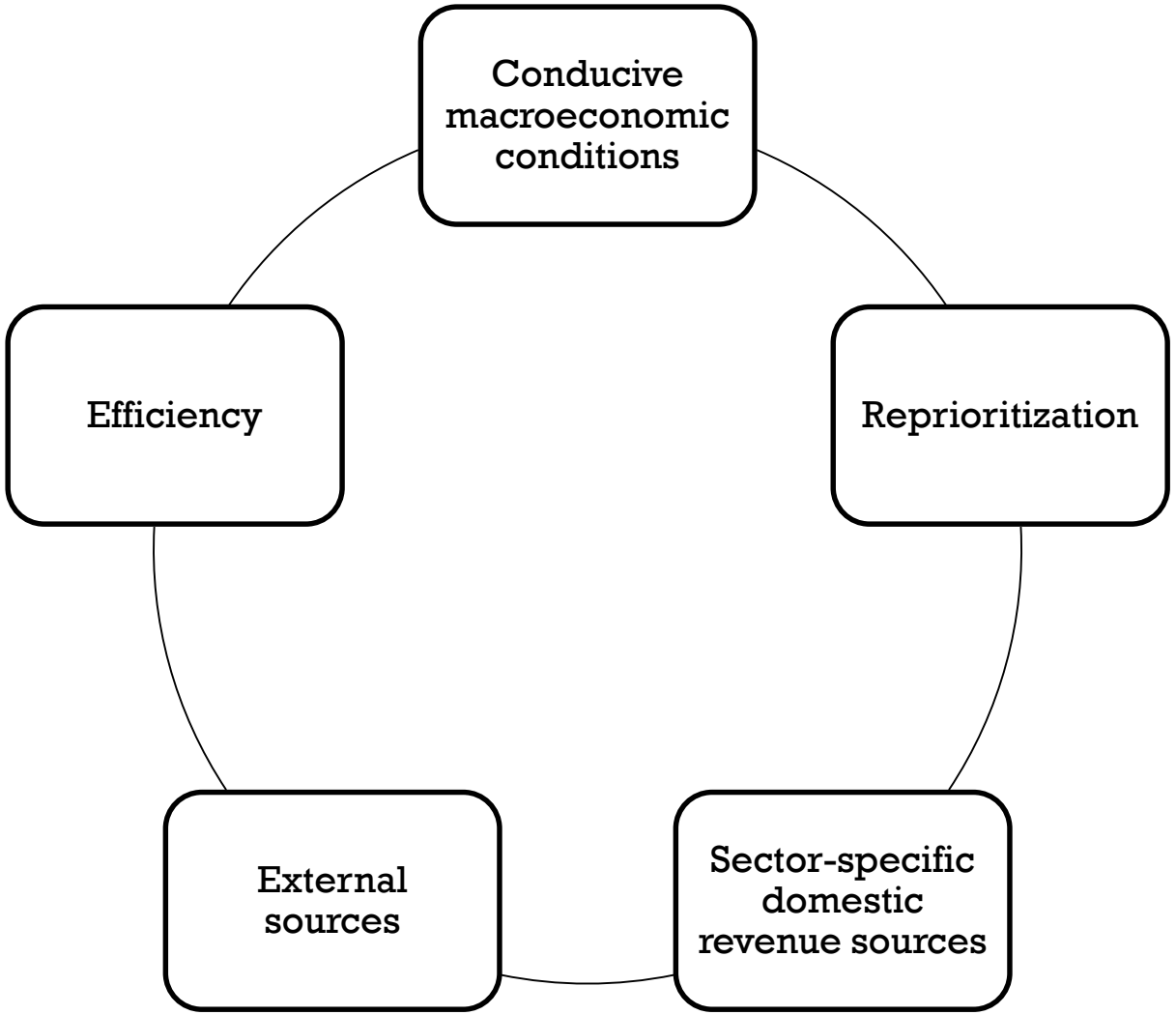


Source: Reserve Bank of India



Note: Andhra Pradesh values include Telangana.
Source: Reserve Bank of India

In Conclusion



- Fiscal space assessments should ideally comprise: (i) needs assessments; (ii) pros and cons of different options, and the potential for generating fiscal space from each; (iii) deeper dives into the most viable options moving forward.

- Important to ensure UHC entitlements are commensurate with revenues and with service-delivery capacity.