INCREASING DOMESTIC PUBLIC FUNDING FOR HEALTH

Case studies of improved tax collection in Kenya, Nigeria and South Africa

RESEARCH OVERVIEW

JULY 2013

RESYST financing research theme

- KEMRI-Wellcome Trust Research Programme, Kenya
- Health Policy Research Group, University of Nigeria, Nigeria
- Health Economics Unit, University of Cape Town, South Africa

Start date: 2013

Overview

Implementing health care financing systems that offer financial risk protection to all the population remains a major challenge worldwide, particularly in low and middle income countries (LMIC). In many LMIC, health systems are underfunded and rely on out-of-pocket payments which have negative implications for household living standards. Consequently, health systems often struggle to meet the standards for providing a basic health package and fail to protect populations against the high cost of care.

Recently, there has been a resurgence of global interest to find strategies to increase health spending and support universal coverage. Central to this debate is how resources for health can be increased. With many countries relying heavily on donor funding, which can be both unstable and unsustainable, it is necessary to identify mechanisms to increase domestic resources for health.

Creating fiscal space

A potential way to increase domestic funding is through creating fiscal space. Fiscal space refers to the availability of budgetary room that a government can use to provide resources for health in a sustainable manner, i.e. without crowding-out other priority sectors or increasing government debt. One way of creating fiscal space is through raising additional revenue e.g. through tax measures or strengthening tax administration.

It is often assumed that LMIC cannot increase tax funding because of weak administrative capacity, high levels of tax evasion and the structure of the workforce, in which most people work in the informal sector. 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. Kenya is one such country and has recorded remarkable improvements in tax revenue collection since the change in government in 2002. Other countries include Nigeria (Lagos state) and South Africa.

RESYST researchers will conduct 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 LMIC struggling to increase their fiscal space for health.

This research is funded by UKaid from the Department for International Development. However, the views expressed do not necessarily reflect the department's official policies.

IMPROVING TAX COLLECTION SYSTEMS IN KENYA

Financing research theme | Kenya

Title	Creating fiscal space for health: a case study of improved tax administration and its implications for health spending in Kenya
Researchers	Dr Doris Kirigia, Dr Jane Chuma, Mr Stephen Mulupi
Institutions	KEMRI-Wellcome Trust Research Programme, Kenya
Start date	2013

Background

Kenya is currently considering options for achieving universal health coverage. At present, the health sector relies on out-of-pocket payments and donor funding as the major sources of health funding. This raises serious concerns for the long term sustainability of the health system; however, the Kenyan government has been slow to change existing financing arrangements – partly because of concerns about its ability to raise additional domestic funds to support the health sector. Despite the perceived limitations of domestic sources of funding, Kenya has recorded remarkable improvements in tax revenue collection since the change in government in 2002.

Purpose of the research

This study will examine whether changes to the tax administration system have strengthened fiscal space and contributed to increased health sector spending in Kenya. It will document the processes and mechanisms that were put in place to support increased revenue collection, and assess the extent to which this increase has translated into higher spending in the health sector. Specifically, the research aims to:

- Document the changing sources and levels of tax revenue in Kenya from 2002 to 2012
- Explore what factors contribute to increased tax revenue collection from 2002 to 2012
- Explore the extent to which the increase in tax revenue collection has impacted on government allocations to the health sector and enabled health systems strengthening

It is envisaged that results from this study will inform policy debates in Africa about revenue sources for universal coverage, and that the Kenyan experience may help and inform policy in other countries that are struggling to increase their tax base.

Study methods

The study will use a mixed-methods approach, combining both quantitative and qualitative data. Methods include:

- Quantitative data collated from documents by the Kenya Reserve Authority, Kenya Ministry of Finance-Treasury and the Ministries of Medical Services and Public Health and Sanitation
- Approximately 23 semi-structured key informant interviews with officials from all relevant Ministries and organizations.

Related research

RESYST researchers are also conducting studies in South Africa and Nigeria (Lagos State) to look at expanding fiscal space by increasing the effectiveness of tax collection systems.

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

Publications

Fiscal Space for Health: a review of the literature. *RESYST Working Paper 1* (2012), Timothy Powell-Jackson, Kara Hanson and Di McIntyre.

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IMPROVING TAX COLLECTION SYSTEMS IN SOUTH AFRICA

Financing research theme | South Africa

Title	Increasing general tax revenue and its impact on financing public health care in South Africa
Researchers	Prof. Di McIntyre, Dr Jane Doherty, Mr John Ataguba, Dr Ayako Honda
Institutions	Health Economics Unit, University of Cape Town, South Africa
Start date	2013

Background

South Africa has recently experienced a dramatic increase in tax revenue, during a period when both personal and company income tax rates were being reduced, through transforming the character and operations of the tax collection organisation (the South Africa Revenue Service or SARS).

However, information about the recent changes to SARS and its impact on tax collection is scattered between different sources and most of the studies on SARS are not formal research studies. What is currently known has not yet been sufficiently developed to have relevance to the policy community in the health sector.

Purpose of the research

This study aims to document the South African experience of increasing general tax revenue and its impact on financing public services, especially health care. It seeks to derive lessons for other low- and middle-income countries, as well as for other public South African institutions seeking to improve efficiency and legitimacy. It seeks to address two key research questions:

1. How did the South African Revenue Service (SARS) succeed in increasing tax revenue dramatically at a time when income tax rates were being reduced?
2. Did the increase in general tax revenue impact on government funding of health services in South Africa and, if so, how did this occur?

Study methods

The project will adopt a mixed methods approach.

- Quantitative methods will be used to quantify trends in general tax revenue, government spending on the health sector and on other sectors and to compare growth in these variables relative to growth in Gross Domestic Product.
- Qualitative methods will be used to explore the contextual factors, tax policies, actors and processes accounting for improved tax revenue and remaining challenges for sustainable tax revenue generation, as well as to understand whether, how and why allocations to the health sector were affected by improved tax revenue generation. Specific qualitative methods include a detailed review of existing studies relating to SARS and approximately 10 semi-structured key informant interviews with officials from the SARS, the National Treasury, the National Department of Health and the Fiscal and Financial Commission.

Related research

RESYST researchers are also conducting studies in Kenya and Nigeria (Lagos State) to look at expanding fiscal space by increasing the effectiveness of tax collection systems.

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

Publications

Fiscal Space for Health: a review of the literature. *RESYST Working Paper 1* (2012), Timothy Powell-Jackson, Kara Hanson and Di McIntyre.

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IMPROVING TAX COLLECTION SYSTEMS IN NIGERIA

Financing research theme | Nigeria

Title	Increasing fiscal space and effect on public health spending: a case study in Lagos State, Nigeria
Researchers	Dr Hyacinth Ichoku, Mr Chijioki Okoli, Dr Obinna Onwujekwe
Institutions	Health Policy Research Group, Nigeria
Start date	2013

Background

In sub-Saharan Africa, expanding the resource base to meet the financing requirements for universal health coverage is a major challenge. In Nigeria, for instance, between 1999 and 2003 tax revenue was only 7% of Gross Domestic Product compared with a minimum figure of 15% recommended by the International Monetary Fund for developing countries. These low tax revenues are associated with low compliance and enforcement, weak revenue administration, low taxpayer morale, and poor governance and corruption. However, Lagos State in Nigeria stands out as a case where internal revenue generation has improved dramatically since 1999.

Purpose of the research

RESYST research will examine how Lagos State succeeded in increasing tax revenue and to what extent this increment in tax revenue has impacted on financing of healthcare in the State.

More specifically, the study aims to:

- Document the changing sources and levels of tax revenue from 2000 to 2012
- Explore the factors contributing to increased tax revenue collection
- Explore whether the increase in tax revenue collection impacted on government allocations to the health sector and enabled health system strengthening
- Summarize the lessons for other low and middle income countries.

Study methods

The project will adopt a mixed methods approach.

- This study will use quantitative methods to describe trends in general tax revenue, government spending on the health sector and on other sectors and to compare growth in these variables relative to growth in Gross Domestic Product.
- Key informant interviews will explore the contextual factors, tax policies, actors and processes accounting for improved tax revenue, and to gain insights into whether allocations to the health sector were affected by improved tax revenue generation, and why and how this occurred.

Related research

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

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

Publications

Fiscal Space for Health: a review of the literature. *RESYST Working Paper 1* (2012), Timothy Powell-Jackson, Kara Hanson and Di McIntyre.

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