

Increasing the fiscal space for Health: The experience of Kenya, South Africa and Lagos state (Nigeria)

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Introduction

How can African countries fund universal health coverage when

- user fees are inequitable
- donor funding is unsustainable
- health insurance schemes struggle to extend coverage?

What about increasing public financing of health care through

- improved tax collection and
- expanded government budgets for Health?

Objective

This study explores whether dramatic improvements over the past 15 years in the tax collection capacity of Kenya, Lagos State and South Africa created more 'fiscal space' for Health.

For a government to have "fiscal space for Health" it must have the capacity to provide the public health sector with an increased budget without compromising its financial sustainability.

Methods

Country research teams developed a common data collection and analytical approach. Mixed methods were used in each country based on:

- document reviews
- trend analyses of quantitative data on government revenue and expenditure
- semi-structured interviews with key stakeholders

Results

How did countries increase tax revenue?

Tax revenue in the study countries increased 2 to 6-fold over the study period.

These dramatic increases are explained by the range of factors in Table 1.

Arguably, the economic and political climate - and changes to tax policy - were as important as the internal transformation of the tax collection agencies.

Interestingly, Lagos State was particularly successful in reaching the informal sector (see Box 1).

Box 1: Increasing tax collection from the informal sector in Lagos State

- engaged with informal trade associations
- transformed the membership bases of these associations into a tax base
- brought large sections of the informal sector onto the state's tax register
- employed women in the tax agency to promote dialogue with women's associations

Table 1: Factors explaining improved tax collection capacity

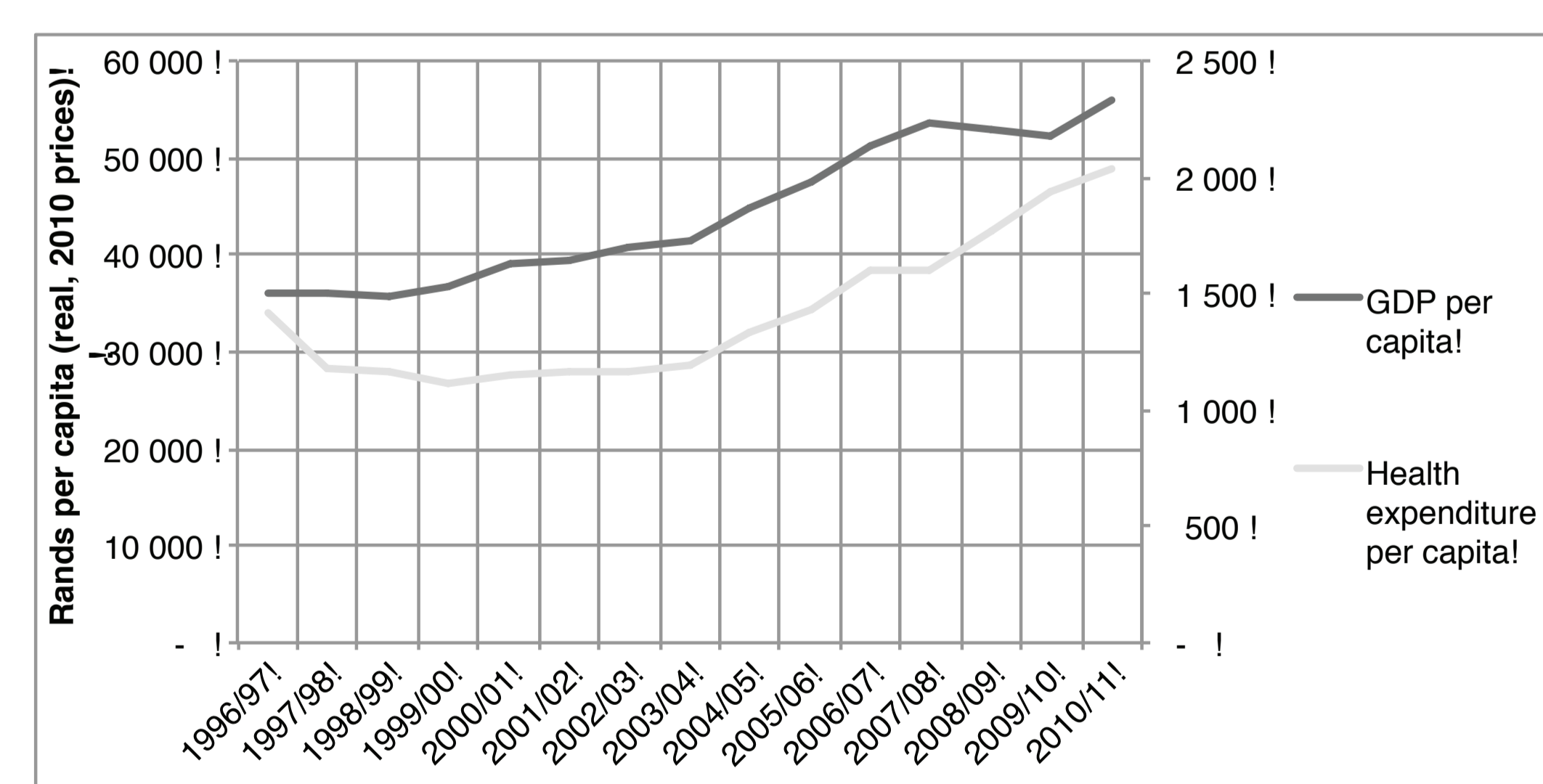
FACTORS	Kenya	Lagos State	South Africa
External environment			
political transition to democracy and government legitimacy	✓	✓	✓
strong economic growth, at least during key periods	✓	✓	✓
The public sector institutional environment			
political support from powerful politicians	✓	✓	✓
continuity of strong leadership in both government and tax collection agency	✓	✓	✓
tax policy reform that rationalised tax rates and expanded the tax base	✓	✓	✓
administrative autonomy for the tax collection agency which enabled operational efficiency and recruitment of highly skilled staff	✓	✓	✓
adequate funding of tax collection agency	✓	✓	✓
The task network for tax collection			
strategic use of external consultants	✓	✓	✓
cooperation between tax collection agency, government departments and private entities (especially banks) to build coherent tax information system	✓	✓	✓
The organisational capacity of the tax collection agency			
a transformation strategy for tax collection agency that	✓	✓	✓
• was founded on a clear vision, shared values and good governance			
• created a streamlined organisational structure and new culture			
• invested in the recruitment and development of skilled staff			
• invested in computerisation			
• coalesced activities around integrated teams			
• dealt swiftly with corruption			
prioritisation of tax collection activities and easier tax filing systems	✓	✓	✓
multiple strategies to promote tax compliance, including positive public perceptions		✓	✓
strong tax enforcement strategies, including public shaming of tax defaulters	✓	✓	✓
Human resource capacity			
increased numbers of adequately skilled staff	✓	✓	✓
active retention of skilled staff	✓	✓	✓
appropriate deployment of staff according to skills	✓	✓	✓
strategic use of positive and negative incentives to motivate staff (including training and performance-based remuneration)	✓	✓	✓

Did the public health sector benefit from increased tax revenue?

In all three countries, economic growth and increased government revenue did not translate into greater per capita spending on Health.

On the contrary, all three countries saw periods of disinvestment in Health. This was the case for South Africa, for example, where health spending was effectively de-prioritised for the decade after 1996.

Figure 1: Trends in real GDP and health expenditure per capita, South Africa



Why was this so, when all countries demonstrated political support for improving health systems?

The answer seems to lie in the complex interplay between economic, political and administrative issues:

- macroeconomic policy reined in public expenditure, required rapid debt servicing or prioritised other sectors
- Ministries of Health did not always have the political clout or technical capacity to argue for larger allocations for Health
- opaque and fluid Health budget development processes undermined Health allocations
- Treasury did not support allocations to Health because it distrusted Health's ability to deliver (see Box 2)

Box 2: The impediment posed by poor performance by Health

"Increasing [the] health budget is important but will the higher funding translate into better performance in the health sector? What we need is to demonstrate that resources allocated to health are distributed efficiently to achieve the desired health outcomes" (Kenyan interviewee)

Conclusions and recommendations

1. With commitment and creativity it is possible to raise additional domestic resources through expanding the tax base and improving the efficiency of tax collection.
2. Fiscal space for Health is constrained by many factors, even in the context of economic growth, increased tax collection and strong political support for Health.
3. Macro-economic policy influences the size of the government health budget.
4. Ministries of Health and others working on health policy need to engage with debates on appropriate macro-economic choices. The trade-offs between developing public health services and growing the economy must be made explicit.
5. Ministers of Health must strengthen their ability to negotiate with Cabinet colleagues for larger allocations, including demonstrating the economic and social benefits of Health investments and the debilitating effects of underfunding.
6. Ministries of Health will strengthen these arguments, and win the trust of colleagues from Cabinet and Treasury, if they are able to demonstrate improved performance and achievements in service delivery.
7. In managing these challenges it is important for Ministries of Health to have clear strategies for presenting and defending budgets, and adequate technical and analytical capacity to support these strategies.

References

Individual country reports on which this study is based (still in press)

Powell-Jackson, T., K. Hanson, et al. (2013). Fiscal space for health: a review of the literature. London: London School of Hygiene and Tropical Medicine for RESYST. Available at <http://r4d.dfid.gov.uk/PDF/Outputs/ReSyst/Resyst-WP1.pdf>.

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