A new look at fiscal space for health:

Preliminary results from a WHO stock-taking exercise

Helene Barroy
Health Financing Policy Unit
WHO
Background and motivation

Although the concept of fiscal space for health was clearly defined in the early 2000s, confusion exists on:

- How does it relate to overall fiscal space?
- What, how and when to assess potential for fiscal space for health expansion?
- How to interpret and use analyses to advance the UHC agenda?
Objectives

- To better tailor fiscal space for health analyses to inform decision-making

- As a first step, WHO initiated:
  - A qualitative review of existing analyses
  - An in-depth analysis of their policy use in a sub-set of countries: key informant interviews
Review questions

- **How?**
  What can we learn from methodological approaches used to assess fiscal space expansion?

- **What?**
  What are the main possible sources of fiscal space for health expansion according to country projections?

- **How useful?**
  To what extent have analyses served to advance health financing reforms?
Outline of the presentation

1. Preliminary findings
   - Application of frameworks
   - Analytical methods
   - Results
   - Policy use

2. Ways forward
   - Possible adjustments for country analysis
Outline of the presentation

1 Preliminary findings

- Application of frameworks
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2 Ways forward

- Possible adjustments for country analysis
1. Application of frameworks: benefits from conceptual clarity

- A common definition

- Sector-wide approach:
  - Fiscal space for the « health sector »

- Combinaison of macro-economic and policy factors:

\[ \Delta = \text{GDP}_{\text{cap}} \times \text{Exp}_{\text{GDP}} \times \text{Health}_{\text{exp}} \]

Heller, 2006
1. Application of frameworks: Some emerging pitfalls

- **Resource-driven analysis:**
  - Funding gap analysis as a distracting starting point
  - Efficiency not systematically addressed
  - External and domestic sources treated as equal options

- **Disconnect with budget cycle:**
  - Frequently not linked with multi-year budgeting process and timeframe
  - PFM systems remain a « black box »
  - Limited consideration of political economy and feasibility of recommendations
# 2. Methods of analysis: some unresolved questions

<table>
<thead>
<tr>
<th>Source of expansion</th>
<th>Dominant analytical method</th>
<th>Emerging questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Macro-economic conditions</td>
<td>Elasticity analysis</td>
<td>Translation of growth into revenues?</td>
</tr>
<tr>
<td>2. Re-prioritization</td>
<td>Comparative analysis against benchmarks and targets</td>
<td>Usefulness of spending targets?</td>
</tr>
<tr>
<td>3. Ear-marked funds</td>
<td>Qualitative assessment</td>
<td>Proof of additivity?</td>
</tr>
<tr>
<td>4. Efficiency</td>
<td>Qualitative assessment</td>
<td>Context-specific outputs?</td>
</tr>
<tr>
<td>5. Development Assistance for Health (DAH)</td>
<td>Comparative analysis against benchmarks and targets</td>
<td>Relevance of DAH as a source?</td>
</tr>
</tbody>
</table>
3. Results: possible sources of expansion

Limited potential
- Ear-marked funds
- DAH

Potentially large gains
- Growth (and revenues)
- Re-prioritization
- Efficiency
3. Results: actual drivers remain largely unknown

- On the revenue side:
  - Growth: possible gains but unlikely to be sufficient
  - Tax policies: unsufficiently explored
  - Ear-marked funds: inconclusive; limited evidence base
  - Prioritization: theoretical gains based on spending targets.

- On the expenditure side:
  - Efficiency gains: most likely large, but require more detailed country analysis to be operational
  - PFM and purchasing systems often identified as priority for efficiency improvement, but largely unspecified.
4. Use: high variation in study relevance and use

- Useful and used for decision-making when:
  - Embedded in ongoing public finance and health financing dialogue
  - Conducted and disseminated jointly by MoH and MoF
  - Based on realistic revenue projections to inform budget negotiations
  - Encouraged a more efficient use of existing budgeted resources

- Less helpful, and possibly detrimental, when:
  - Start with gap analysis and needs assessments
  - Based on reaching spending targets, with limited incentive to reforming actual envelopes;
  - Focused on analyzing a particular sub-sector.
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1 Preliminary findings

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2 Ways forward

- Possible adjustments for country analysis
Ways forward

● Need to adjust when and how fiscal space for health analyses are conducted to maximize their policy use and effects

● Plus, times have changed:
  - When the concept was first developed...
    - Increasing aid in health sector funding
    - Favourable macro-economic conditions
    - Reduced external debt
  - SDGs era
    - Decline in DAH growth rate
    - Re-emerging macro-economic pressures in some LMICs
    - Debate on fiscal solvency and debt-targets
Expanding fiscal space for health has become a predominantly domestic financing agenda

Domestic and external sources for health expenditure in LMICs (2013)

<table>
<thead>
<tr>
<th>Income Status</th>
<th>Domestic Sources</th>
<th>External Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income countries</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Lower middle income countries</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>Upper middle income countries</td>
<td>99%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Source: National Health Accounts, WHO
Assessments could be mainstreamed to the budgeting cycle

Fiscal space for health analysis

An instrument to better align health policies, planning and budgeting

- Reporting, auditing and evaluation
- Execution and purchasing
- Budget negotiation and approval
- Annual budget preparation and formulation
- MTEF: multi-year revenue and expenditure forecast
Each step of the budgeting process can be a potential source of gains

<table>
<thead>
<tr>
<th>Budget cycle steps</th>
<th>Possible gains</th>
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<tbody>
<tr>
<td>Mid-term planning</td>
<td>Strengthened quality of revenue forecast to improve predictability and inform realistic increases in health budget share</td>
</tr>
<tr>
<td>Budget formulation</td>
<td>Alternative budget structure as a possible way to better link health allocations with expected results</td>
</tr>
<tr>
<td>Preparation and approval</td>
<td>Strengthened quality of sectoral budget requests and alignment with MTEF</td>
</tr>
<tr>
<td>Execution</td>
<td>Improved execution processes within MoH and harmonization of purchasing systems with PFM rules</td>
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Expansion of fiscal space requires understanding political economy

- Political processes and dynamics should be an explicit part of fiscal space for health analysis

- Need to understand political processes that pertain to budgeting prior to and during the elaboration process

- Also, critical to understand better the political and social dynamics for/against overall and sector-specific taxation

- Recent efforts (PAHO) to explicitly consider the political feasibility of fiscal space for health expansion should be expanded.
To recap: How to adjust country assessments?

1. Re-focus on domestic expenditure
   - Do not treat domestic and external sources as equal source of expansion
   - Re-balance focus: from resource mobilization to expenditure management

2. Mainstream to budgeting
   - Re-situate assessments within multi-year budgeting (MTEF)
   - Explore margins at each step of the budget cycle
   - Institutionalize and systematize assessments

3. Understand political economy
   - Re-connect analysis with political and institutional considerations
   - Understand the key enabling factors for change.
Next steps

- We look forward to hearing from you!

- Panel & discussions:
  - How have fiscal space for health analyses been used in your own setting?
  - What are the opportunities and pitfalls to avoid?
  - How to improve their use, interpretation and application?
Acknowledgements

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Thank you