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HEALTH & EDUCATION ADVICE AND RESOURCE TEAM

JUNE 2016

Fiscal Space Analysis in Sierra Leone: The Free Health Care Initiative and Universal Health Coverage

Overview

In 2010 the Government of Sierra Leone (GoSL) removed user fees for pregnant women, lactating mothers and children under five, under the Free Health Care Initiative (FHCI). The Oxford Policy Management (OPM) team has been working on an evaluation of this initiative since April 2014. Part of the evaluation was to conduct a fiscal space analysis. The analysis looked at how Sierra Leone can improve the sustainability of FHCI financing, lower household out-of-pocket (OOP) payments on health care and decrease its dependence on donors. A secondary analysis provided insights into how Sierra Leone could work towards achieving its longer-term health goal of Universal Health Coverage (UHC).

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Key messages

1. If Sierra Leone's FHCI and UHC policies continue as they are, both areas will be increasingly underfunded within ten years. Neither the economy, nor the tax base, is projected to be strong enough to create the fiscal space to invest as needed in health if current policies are sustained.
2. With a reprioritised focus on the FHCI financing policy, the resource gap can be closed.
 - Longer-term budgeting needs should be considered and implemented soon for the impact to be felt post-2020.
 - Medium-term earmarked taxes and efficiency savings can be greatly beneficial and should be further researched, planned and implemented for their introduction in the near term.
3. The most effective domestic financing mechanism is government spending, whether purely budgetary or health insurance allocations.
4. The continuation of external donor support is essential to continue to deliver FHCI and UHC services in an effective manner throughout the country.
5. The government needs to improve Public Financial Management (PFM) in the health sector in order to increase the confidence of donors.

Context

Sierra Leone is a low-income, post-conflict, fragile state with a per capita income of 660 USD in 2015. Health is essential for strong economic growth and social development. However, the scale of household OOP expenditures is increasing the risk of Catastrophic Health Expenditures (CHE) and must be reduced to create a truly effective FHCI and begin the path towards UHC.

Methods

The core of the fiscal space analysis took the form of a 'funding gap analysis' under scenarios of 'business as usual' and 'maximised fiscal space'. The business as usual scenario projected health financing from current policies and plans. The maximised fiscal space scenario assumed that the GoSL adopted policies to prioritise health and to meet resource needs over the next ten years.

This provided short- and long-term perspectives of the expected needs and available expenditures for FHCI and UHC and the projected shortfall. The analysis was done within a macroeconomic framework to project key economic, fiscal and health funding variables. We embedded the results of the quantitative projections of fiscal space for health within a discussion of the health and macroeconomic policy in Sierra Leone.

Four domestic financing policy options are: increased government allocations to health (including mandatory health insurance); implementation of an earmarked levy for health; efficiency savings; and borrowing.

Findings on the FHCI

The scenario described in Figure 1 indicates the FHCI resource gap. We projected the developments needed to maximise the fiscal space for FHCI.

The original financing gap (red bar) shows the financing gap if the GoSL was to pursue business as usual. By 2025 the gap is projected to reach 66 million USD, which is 0.6% of GDP.

The orange bar shows how the gap can be reduced through government funding. Raising the budget for FHCI - in line with the total health budget moving towards the 15% Abuja target - would close the gap in its entirety by 2021. A second option of including FHCI beneficiaries into the Sierra Leone Social Health Insurance Scheme may reduce the gap by 2% in 2025.

The gold bar shows the sum of government funding through raised budgets along with potential resources from earmarked taxes. This could reduce the financing gap by 65%. In the unlikely situation where the GoSL was to implement all new taxes on top of raising budgetary allocations, the financing gap would decline in 2017 and would be closed by 2020.

The final, yellow bar shows the sum of government funding through raised

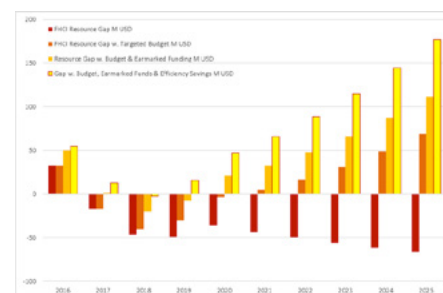


Figure 1: FHCI Maximising Fiscal Space Financing Gap (M USD)

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budgets along with potential resources from earmarked taxes and adds renewed efforts by the government to improve efficiency. Efficiencies can be made but can take some time to implement. However, choosing the right areas to target could close the financing gap.

With a reprioritised focus on FHCI financing policy, the FHCI resource gap can be closed. Longer-term budgeting needs should be considered and implemented soon for the impact to be felt post-2020. Medium-term earmarked taxes and efficiency savings can be greatly beneficial and should be further researched, planned, and implemented in the near term.

Findings on UHC

Projections for maximising fiscal space for health are explained in Figure 2.

The original financing gap (red bar) is the resultant gap under scenario 1 'business as usual'. By 2025 the gap is projected to reach 720 million USD, which is 6.6% of GDP.

The next bar (orange) shows how the gap can be reduced through government funding. Moving towards the 15% Abuja target and developing SLeSHI could reduce the gap by a half by 2025, however, the gap remains at 352 million USD. The impact of this action is not seen until 2018 when new budgets can be planned and there can be new focus on health spending; it has a substantial impact on the resource gap.

The third bar (gold) shows the sum of increased government funding with potential resources from earmarked taxes. This could reduce the financing gap by 5%. In the unlikely situation

where the GoSL was to implement all new taxes on top of raising budgetary allocations and health insurance contributions the financing gap would fall to 311 million USD in 2025, accounting for 0.4% of GDP.

The final bar (yellow) adds renewed efforts of the government to improve efficiency to the changes described above. This leaves a final financing gap of 39 million USD in 2024, and a surplus of 23 million in 2025. So if all these actions are considered together, the financing gap can be filled in 2025.

Under this scenario, if the GoSL wanted to fully close the gap to cover all UHC needs over the entire period they would need to borrow funds. The amount needed to borrow is represented by the yellow final bar, an average of 178 million USD a year across ten years. As a proportion of GDP this would be the equivalent of borrowing 3% of GDP a year; peaking at 5% in the first five years and falling to zero by 2025 as other funding sources take effect. However, it is not inevitable that the government will

need to borrow, and it is not advisable for Sierra Leone to borrow these large sums of money. This gap can be filled by extending other domestic mechanisms or gaining extra donor funds.

The longer-term plan to raise budget allocations for health to 15% of General Government Expenditure (GGE) will have a significant impact on the financing for UHC. This presupposes an investment in widening the tax base and increasing domestic revenues. The scale of these reforms will take time and so to cover the near-term health needs, Sierra Leone has the opportunity to implement earmarked taxes.

Additionally, fiscal space can be found when overcoming inefficiencies in the health sector; this can provide efficiency gains over ten years. The impact of the Sierra Leone Social Health Insurance Scheme may be negligible over the next ten years as the scheme is in its development phase. All of these domestic efforts however will not be sufficient to cover the financing gap. Since borrowing has been written

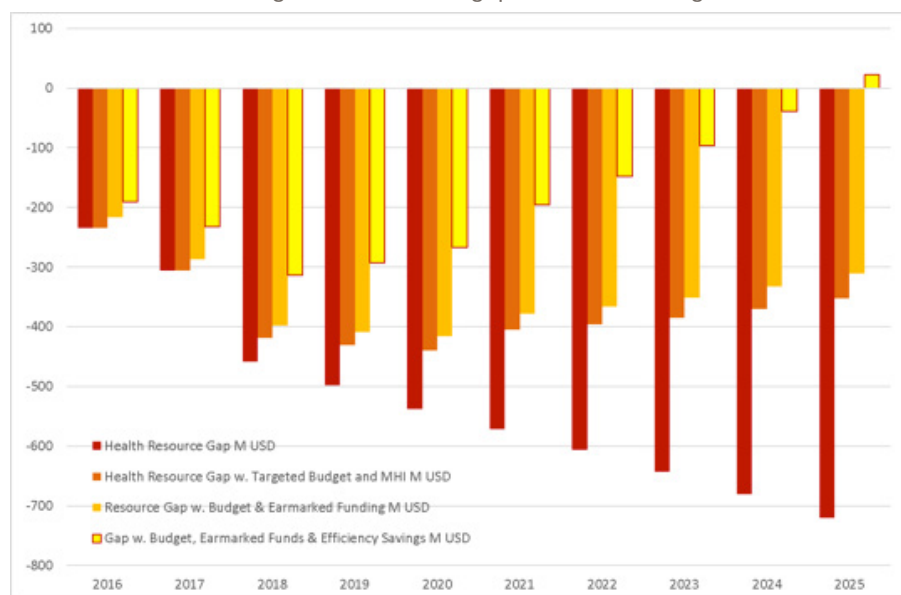


Figure 2: UHC Maximising Fiscal Space Financing Gap (M USD)

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off as a possibility for Sierra Leone it means that external financing will be required for the foreseeable future to deliver a basic package of health services to the population.

Conclusions and Policy Recommendations

The business as usual scenario has shown that if Sierra Leone FHCI and UHC policies continue as they are, both areas will be increasingly underfunded within ten years. Neither the economy nor the tax base is projected to be strong enough to create the fiscal space to invest as needed in health if current policies are sustained.

These projections show that the most effective domestic financing mechanism is government spending, whether purely budgetary or health insurance allocations. Centralised coordinated systems can provide substantial financing for health services to be delivered to the majority of the population. However, we do not expect this to be realised in the medium term. Therefore, other sources of domestic

funding will be essential to cover financing needs in the near term. Earmarked taxes such as 'sin taxes' and airline levies are seen as strong contenders in Sierra Leone. Efficiency savings in the health system in general can also provide fiscal space.

The newly proposed 'Withholding Tax' earmarked for FHCI is a sensible proposition for an earmarked tax, which provides a stable and sustainable flow of income. However, as it stands the funds are not expected to cover the FHCI costs, and the organisational structure for collecting and distributing them may add to complexities in health planning. These should be reconsidered.

The Sierra Leone Social Health Insurance Scheme plans are also in their infancy and require some development before this can be considered a serious financing mechanism to achieve UHC in Sierra Leone.

Recommendation to donors

Our fiscal space analysis suggests that continuation of external donor support is essential to continue to deliver FHCI

and UHC services in an effective manner throughout the country. Sierra Leone clearly continues to require external support before they can transition to a self-sustaining country. If this does not transpire the strong health gains Sierra Leone has achieved in recent years will be at risk.

Recommendation to the Government of Sierra Leone

While there is political will to support financing of health, there are also non-financing factors to be considered before any new financing can be fully effective. To gain more external financing and, crucially, to have the funding on-budget and aligned with GoSL priorities, the GoSL will need to improve PFM within the health sector. This investment may provide confidence in the GoSL and so attract more international financing to the sector.

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Resources

Witter, S. Brikci, N., Harris, T., Williams, R., Keen, S., Mujica, A., Jones, A., Murray, A., Bale, B., Leigh, B., Renner, A. (2016) The Sierra Leone Free Health Care Initiative (FHCI): process and effectiveness review. OPM report for MoHS and DFID, Sierra Leone. http://www.opml.co.uk/sites/default/files/FHCI_report_OPM.pdf

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