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Commentary

Assessing Fiscal Space for Health in the SDG Era: A Different Story

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Abstract—Initially defined for overall public purposes, the concept of fiscal space was subsequently developed and adapted for the health sector. In this context, it has been applied in research and policy in over 50 low- and middle-income countries over the past ten years. Building on this vast experience and against the backdrop of shifts in the global health financing landscape in the Sustainable Development Goals (SDG) era, the commentary highlights key lessons and challenges in the approach to assessing potential fiscal space for health. In looking forward, the authors recommend that future fiscal space for health analyses primarily focus on domestic sources, with specific attention to potential expansion from the improved use and performance of public resources. Embedding assessments in national health planning and budgeting processes, with due consideration of the political economy dynamics, will provide a way to inform and impact allocative decisions more effectively.

The concept of *fiscal space* emerged in the late 1990s as part of broader discussions between countries and international financial institutions about the capacity to increase public spending—sometimes deemed necessary for a variety of "meritorious" purposes—but doing so in a fiscally sustainable manner that did not threaten government solvency.[1] Initially developed and defined for overall public purposes,[2] Heller subsequently adapted the concept of fiscal space for the health sector in the early 2000s against the backdrop of international pressure for more public spending on health to meet the Millennium Development Goals in low- and middle-income countries (LMICs).[3] Building on the International Monetary Fund's work and Heller's initial definition, in 2010 the World Bank outlined a framework for assessing fiscal space for health from five potential sources: conducive

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macroeconomic conditions; reprioritization of health within the government budget; earmarked income and consumption taxes directed toward the health sector; better efficiency of existing health expenditure; and external aid.[4] This framework has been applied in more than 50 LMICs to inform the development and implementation of health financing reforms. The authors of this commentary have now come together to tease out lessons and challenges in the approach to assess fiscal space for health against the backdrop of some changes in health financing facing LMICs in the Sustainable Development Goals (SDGs) era. This commentary builds on our collective expertise in carrying out and discussing fiscal space for health assessments with policy makers across a wide range of countries. It also draws on a recently published World Health Organization global review of fiscal space for health assessments in LMICs.[5]

LESSONS FROM FISCAL SPACE FOR HEALTH ASSESSMENTS

Fiscal space for health assessments generally helped to strengthen health financing dialogue in at least three ways. First, some assessments contributed to anchoring calls for additional resources within the reality of macrofiscal contexts, ensuring that policy commitments were commensurate with potential resource envelopes. In some countries, the recognition of macrofiscal realities was important in readjusting planned reforms to align with these constraints. In light of this, improving macroeconomic knowledge and awareness of key health counterparts contributed to more effective health financing policy dialogue within countries.

Second, assessments often prompted a cautionary view of earmarked taxes as a source of revenue for the sector and rather focused on the importance of general public revenues for expanding coverage. In line with recent evidence,[6,7] despite their growing prevalence, potential gains from earmarked income, payroll, or consumption taxes—including for the purpose of introducing or expanding social health insurance—were found limited in comparison with other sources of fiscal space for health. By putting earmarked mechanisms in the broader fiscal context, fiscal space for health assessments urged policy makers to broaden their narrow focus beyond one revenue stream and to consider earmarked mechanisms as one component of overall domestic resource mobilization strategies toward universal health coverage (UHC).

Third, assessments also helped in some countries to shift the focus of health financing policy dialogue toward a better use of existing resources. Concurrently examining new revenue sources and the use of existing money, studies demonstrated that fiscal space for health is not only a matter of generating additional revenue but, in many settings, also a matter of more effective and efficient use of existing resources—through, for example, refined allocations, better budget execution, and strategic purchasing of health services. Studies that recognized that improving the use of existing funds as one of the most effective and realistic options to expand public financing for the health sector in the short to medium term led to constructive policy dialogue with finance authorities.[5]

However, the policy impact of fiscal space assessments depended by and large on the approach and process used by analysts, with experience suggesting a series of potential pitfalls. First, little consistency and lack of rigor in the methods and metrics used to quantify the scope of expected change in public spending for health often undermined the policy utility of such assessments. For example, studies that simply used international health spending targets (e.g., 5% of gross domestic product or the 15% health share in the government budget as per the Abuja Declaration) to justify increases in fiscal space for health without clear links to reform processes and outcomes had limited policy traction. As evidenced elsewhere,[8,9] reaching spending targets through fiscal space for health expansion is not an end in itself and certainly does not guarantee progress toward UHC.

In addition, the treatment of efficiency improvements, as a possible source of fiscal space for health expansion, was subject to high variability across studies, often with little attention to positioning findings within the broader health policy dialogue.[5] Although efficiency gains are increasingly recognized as a major source of "untapped fiscal space,"[10,11] action on public financial management issues as a means to realize such gains has received little attention in fiscal space assessments. Analyzing key bottlenecks at critical stages in budget formulation and execution is not only useful from a health sector perspective but can provide a solid basis for discussions of fiscal space expansion with finance authorities.[10]

Explicit consideration of the political feasibility of recommendations—whether they pertained to changes in budget prioritization, modified allocations of resources within the sector, or options for new revenues—has also been uneven across studies, limiting the potential influence of assessments on policy decisions.[12] More broadly, assessments should not be carried out as one-off studies but as regular updates that build the capacity and provide entry points for ministries of health and other relevant stakeholders to engage and dialogue with ministries of finance. This will require aligning assessments with the budget process and timeline and embedding assessments in multiyear budgeting exercises to impact allocation decisions more effectively.

TOWARD THE SDG: ALIGNING FISCAL SPACE FOR HEALTH ASSESSMENTS

Since the inception of the concept of fiscal space for health a decade ago, the health financing landscape in LMICs has changed. Since the start of the SDG era, the growth of development assistance for health has slowed;[13] moreover, more than 30 LMICs are expected to lose access to major sources of concessionary financing over the next decade as they surpass macroeconomic eligibility thresholds.[14] The adoption of the SDG has also been associated with a greater recognition of the importance of "ensuring significant mobilization of resources," first and foremost from domestic resources and with a specific target on the budget share dedicated to "essential services," including health (target 1.A.2). It also promoted greater attention to UHC (target 3.8)—ensuring that everyone has access to quality health care when needed, without suffering undue financial hardship in the process of doing so.[6,15,16] This embrace of UHC as a global objective provides an opportunity to pursue the other disease-related and health targets more coherently, as well as those associated with improved financial protection and poverty reduction.[17]

Considering these changes, refocusing fiscal space for health assessments toward domestic sources is needed as part of an overall assessment of a country's capacity to progressively move away from external financing for health.[14,18,19] Though countries are encouraged to explore options to leverage private sector resources, in general domestic sources of fiscal space for health should be understood as various policy options to be explored on the public revenue and expenditure sides to create or expand the margin for the health sector to maneuver through sustainable public financing. As part of these assessments, key technical questions to be addressed within the domestic fiscal space should include the following:

- How to overcome technical and political barriers to increase the domestic budget share for health?
- What space could be generated through better public financial management of existing resources and a greater alignment of budgetary allocations with sector needs and priorities?
- What incentives are needed for the public allocation and expenditure management systems to effectively expand the sector's financing capacity and performance?

Related to this, analysts working in this field should increasingly pay attention to public revenues as a primary driver for fiscal space for health expansion. Though growth in national income is likely the most important driver of public spending for health, fiscal space expansion derives, more directly, from states' abilities to transform economic gains into increased public revenues. As highlighted in the Addis Ababa Action Agenda,[20] tax collection efforts—and therefore in-depth assessment of fiscal policies as a core attribute of future fiscal space for health studies—will be critical to support and inform progress toward UHC in the SDG era. In particular, this renewed focus will be fundamental where the translation of "growth dividends" into increases in public revenues and budgetary shares is not automatic.[21] Fiscal interventions (e.g., change in tax rate and base, exemption and subsidy policy, compliance policy, and fight against tax fraud and tax evasion) are likely to constitute an essential part of future studies and associated dialogue.[22,23] The Addis Ababa Action Agenda, as well as other global collaborative efforts,[24] also calls on countries to draw on all sources to finance the SDG agenda, including the investment capacity of the private sector. Future analyses need to capture these options more systematically, as complementary sources to public funds.

In the context of UHC and SDG, fiscal space assessments must also consider the challenge of meeting overall health system goals.[25] In the past, assessments have sometimes narrowly focused on sector-specific inputs (e.g., personnel, medicines), programs/activities (e.g., immunization), or diseases (e.g., HIV/AIDS). By taking a system-wide approach, future fiscal space for health assessments are likely to be better positioned and aligned with overall health planning and budgeting exercises. Policy options to increase critical investments in sectors that benefit health, such as education and agriculture, should also be part of the dialogue around fiscal space.

In looking forward, we believe that fiscal space for health assessments should: (1) give greater emphasis to domestic sources, looking at both revenue and expenditure policy options; (2) pay specific attention to improving the effectiveness and efficiency of public funds to make space for new health expenditures within the existing budget envelope; (3) refine and use consistent analytical methods and metrics to quantify the expected scope of change in fiscal space for health with clear links to reform processes and outcomes; (4) expand the scope of assessments to look more comprehensively at funding options within and beyond the health sector; (5) embed assessments in national health planning and budgeting processes with due consideration of the political economy dynamics; and (6) combine assessments with capacity building and technical assistance activities to facilitate policy dialogue between ministries of health and finance, in helping health stakeholders recognize and navigate macrofiscal constraints.

DISCLOSURE OF POTENTIAL CONFLICTS OF INTEREST

The authors declare that they have no conflicts of interest.

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