Improving technical efficiency in health spending in Africa

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Acronyms and abbreviations

CFA  French: Communauté Financière Africaine (African Financial Community)
DEA  data envelope analysis
GDP  gross domestic product
IMF  International Monetary Fund
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1. Introduction

The average prevalence of HIV infection in the general population of Burkina Faso was estimated at 0.8 per cent in 2015, with around 95 000 people living with HIV (UNAIDS 2015). The fight against HIV/AIDS is based on an approach involving all state and civil society actors, which has resulted in the creation of an institutional framework for the co-ordination and implementation of interventions in key areas identified throughout the country.

This approach has not been without results, and the incidence and HIV prevalence has declined sharply. That said, significant challenges remain. In particular, prevention, treatment and care are far from reaching target levels. Limited financing for HIV/AIDS has been identified as a fundamental factor underpinning these challenges. Moreover, with 20 per cent of total HIV/AIDS expenditure from public domestic sources and 75 per cent from external sources, the current financing arrangements are heavily dependent on donors (UNAIDS 2012). The government’s contribution represents an investment in HIV/AIDS of 0.1 per cent of GDP, or 0.2 per cent of the national budget (UNAIDS 2012; IMF 2016).

While the high level of donor dependency is not unusual for a low-income country, the government’s level of investment in HIV/AIDS is below what might be expected for a country of this income status. Indeed, a recent study found that the average spending on HIV/AIDS was around 0.8 per cent of the national budget for 11 low-income sub-Saharan African countries (OPM 2016).

This situation was considered unsustainable and a fiscal space study was undertaken to assess the longer-term financing situation, and what options were available to the HIV/AIDS sector. The objective of the study was threefold:

1. to examine how the government of Burkina Faso could address the HIV/AIDS financing challenges, with a particular focus on long-term domestic sustainability;
2. to consider how technical efficiency in spending could be improved (i.e. how to use limited financial resources to gain maximum outcomes); and
3. to identify how the ministry of finance and ministry of health could work together within the budget process to improve technical efficiency as a quid pro quo for increased funding for HIV/AIDS.

A fiscal space study allows all three questions to be considered within one framework, and presents various policy options to the government over the short to longer term. The findings illustrate the need for a sector-wide efficiency analysis within the budget appropriation process. Ministries of health and finance normally engage in the budget appropriation process looking at a partial picture, taking into account the cost of sector (at best) and public expenditure/appropriation. The fiscal space framework is more realistic in considering efficiency explicitly as a ‘funding’ source. More importantly, however, it creates an accountability and performance framework between the two ministries, with the ministry of finance willing to consider increasing budgets for health if the ministry of health is able to demonstrate increased efficiency.

Section 2 sets out the approach, while Section 3 reports findings. Section 4 describes how efficiency savings can be part of the budget process. Section 5 suggests some questions for discussion and section 6 offers a conclusion.
2. Methodology

A simplified approach to fiscal space can be depicted in the form of a fiscal space diamond, each corner representing a source of finance for HIV/AIDS (see Figure 1). The four corners are: domestic revenue, foreign grants, sovereign debt and efficiency improvements/reduction of waste. For this case study, the focus falls on the domestic revenue and efficiency corners.

Figure 1: Fiscal space diamond

The study is presented as an HIV/AIDS financing gap analysis. It compares resource needs (the total costs associated with delivering the HIV/AIDS programme) with the available resources (the expected available expenditure for HIV/AIDS from different sources). A financial programming framework, a light macroeconomic model, underpins the analysis and allows future projections of expenditure to be made. Resource needs minus resources available provides a financing gap (or surplus). Various domestic funding options are then examined to fill the gap.

This approach is carried out over the longer term; in the case of Burkina Faso, the analysis period runs until 2020. The model is populated as follows:

- Projected data is underpinned by macroeconomic forecasts from the ministry of finance (supported by IMF data if domestic data is not available), such as inflation, GDP growth, available government budget, and so forth.
- Resources available for HIV/AIDS are projected on the basis of the following assumptions:
  - the government’s share of funding to HIV/AIDS remains stable as a proportion of total government spending (allows for rising nominal values but no change in prioritisation policy towards/away from the sector); and
  - a decline in external funding in line with international projections.
- The HIV/AIDS resource needs can be established using a country-specific costing model. This provides a value that would be required to be spent on HIV/AIDS to fully cover all HIV/AIDS health and non-health expenditures.

This provides a baseline funding gap for HIV/AIDS, which can be termed the ‘business as usual’ scenario, as it assumes that HIV/AIDS financing policy continues unchanged. It highlights the cost of inaction.

Once the baseline gap has been identified, four domestic funding options – increasing government expenditure to HIV/AIDS, innovative funding (or earmarked taxes), efficiency savings and domestic borrowing – are assessed. New funds from these sources are then added to the resources available to HIV/AIDS and are set against the resource needs. A new, smaller gap emerges, or the gap is closed altogether. The revised gap can be termed the ‘maximising fiscal space’ scenario.
3. Findings

3.1 Business as usual funding gap

Projections for current HIV/AIDS spending plans and the latest estimates for HIV/AIDS expenditures from different sources provide the basis for the baseline gap. This is represented by the difference between HIV/AIDS resource needs and available resources (see Figure 2). In this business as usual scenario, the HIV/AIDS funding gap is estimated at CFA5.2 billion in 2013, increasing to CFA5.9 billion in 2020. The gap represents 0.09 per cent of GDP in 2013 and 0.06 per cent of GDP in 2020. This implies that relatively small increases in resources can cover HIV/AIDS needs in Burkina Faso. However, if the domestic financing policy does not refocus on HIV/AIDS, the financing gap will continue to grow over time.

3.2 Maximised fiscal space funding gap

This raises the policy question of how Burkina Faso might close its HIV/AIDS funding gap. Several alternative financing options have the potential to increase fiscal space for spending on HIV/AIDS. These are described below.

3.2.1 Increased budget allocation to HIV/AIDS

Fiscal space for HIV/AIDS can be gained by increasing the share of the total budget allocated to HIV. Cross-country comparisons show a wide variation in government spending on HIV/AIDS, even among countries with a similar income. The budget appropriation process is highly politicised and decision-makers are faced with competing needs across the government. Therefore, the allocation of a larger share of the budget to HIV/AIDS is not typically an easily attained source of fiscal space in most countries. This is particularly the case for highly donor-dependent countries, in which the ministry of finance may see the HIV/AIDS sector as self-funding from external sources. There are also arguments regarding efficiency spending within the allocation negotiations, and often the ministry of finance asks for evidence of the ministry of health providing value for money in expenditure. Currently, the share of the public budget allocated to HIV/AIDS is already high compared to other countries. At the same time, there is a mainstreaming policy in place that requires all ministries and agencies to spend 0.1 per

Figure 2: Business as usual scenario – HIV/AIDS resource needs compared to available resources (CFA billion)

Source: OPM (2013)
cent of their budgets on HIV/AIDS expenditures. To model an increased budget allocation, this proportion is raised to 1 per cent.

3.2.2 Earmarked taxes
Earmarking can involve dedicating an entire tax to fund a particular programme or setting aside a fixed portion of a particular tax to fund the programme. Regardless of the approach, their purpose is the same – to increase the resource base for public spending on HIV/AIDS. The levying of ‘sin taxes’ (i.e. taxes on goods that have adverse health effects, such as tobacco and alcohol) and allocating the proceeds to the health sector is an example of earmarking. Such taxes are considered justified as they represent the imposition of a consumption charge on those who use them in lieu of the costs that these products generate and the impact their use has on society beyond those who simply consume them. Earmarking is often viewed as imposing an unnecessary constraint on fiscal policymaking, one that reduces flexibility and allocative efficiency. Thus, while it is not unusual for calls to be made to introduce earmarked taxes as a way to insulate HIV/AIDS spending from other competing publicly funded activities, these calls are generally supported by political rather than economic arguments.

In Burkina Faso, several earmarked taxes were assessed for their relevance to the specific environment. These included: a mobile phone levy; an airline levy; and private sector contributions. Each required an analysis of the potential economic and social impacts of imposing a tax and how much revenue could be collected from each. Such revenues are added to the available resources for HIV/AIDS within the maximised fiscal space scenario.

3.2.3 Efficiency savings
Simply defined, inefficiency refers to a failure to fully exploit available resources. At the most basic level, efficiency gains can be thought of as achieving one of two things: better outcomes for the same level of investment, or the same outcomes at a reduced level of investment. While efficiency gains may reduce the costs of service delivery, the objective is to contain costs without reducing outcomes. Efficiency, therefore, includes a measure of both the quality and the quantity of outputs (e.g. immunisation rates) for a given level of input (e.g. immunisation budget) and is not simply about ‘cutting costs’. More often, it is about making better use of existing resources so as to expand coverage of and access to HIV/AIDS services. Efforts to improve efficiency, then, should be considered in order to increase the domestic resources available for HIV/AIDS spending. Fiscal space created through efficiency improvements can take a variety of forms – for example, increasing the efficiency with which services are delivered or transfers targeted, introducing policies that reduce corruption and improve governance, and achieving greater alignment and harmonisation of donor resources.

Countries have differing levels of spending efficiency. If HIV/AIDS systems become more efficient, they will need less money to provide the same levels of service, or with the same amount of money would be able to provide more services. The potential to improve HIV/AIDS efficiency in Burkina Faso has been estimated using a data envelope analysis (DEA) (Zeng 2014). The dataset covers 68 countries for the period 2009–2011. These efficiency savings are accounted for in the resource needs (i.e. through a reduction in the resources required to deliver the programme). A new financing gap, including the efficiency savings, is then calculated. This financing gap presupposes the implementation of policies aimed at making the HIV/AIDS system more efficient.

Using DEA scores to assess potential monetary efficiency savings is theoretical and the estimates only directionally accurate. Efficiency savings will only materialise if practical policy interventions that decrease programmatic unit costs are successfully implemented.

The global DEA study finds that the average efficiency level of HIV/AIDS systems was 48 per cent; on average, countries could have saved 52 per cent of HIV/AIDS spending if they had used their budgets as efficiently as their most efficient peers. Findings for Burkina Faso show that efficiency in spending is only 33 per cent, suggesting that there is ample room to make the response more efficient, but also that efficiency levels have been increasing over time.

The maximised fiscal space scenario incorporates the rising trend in efficiency and projects this over the ten-year analysis period to 2020. In this way, it theorises the potential savings that can be made if the HIV/AIDS sector focuses on improving efficiency. This will require specific efficiency measures, yet to be identified, and a strong policy commitment to improving the efficiency of HIV/AIDS systems in Burkina Faso.

3.2.4 Borrowing
Borrowing provides the government with an opportunity to spread expenditure over time, providing additional resources at the onset of a loan, while constraining its resources later through interest payments as loans are repaid. For this reason, borrowing does not create additional fiscal space; rather, it changes its availability over time. Some argue that spending on HIV/AIDS is an investment since it reduces the future costs of intervention and enhances growth potential by increasing the productive lifetime of citizens through lower infection and death rates. However, Burkina Faso is classified as a country at moderate risk of debt distress according to the Debt Sustainability Framework of the IMF and World Bank (IMF 2016). Therefore, borrowing for HIV/AIDS should be considered a measure of last resort only and, as such, no borrowed funds are included to narrow the financing gap in a maximised fiscal space scenario.

Bringing these four financing options together, the funding gap for HIV/AIDS is revised as shown in Figure 3. The total additional resources that could be mobilised – in addition to the baseline scenario resources – exceed the resource needs (i.e. the financing gap has become a resource surplus). However, the findings clearly identify a time lag in the implementation of financing options – as can be seen by the remaining financing gap in the initial three years of the analysis.
Figure 3: Maximised fiscal space scenario – HIV/AIDS resource needs compared to available resources (CFA billion)

Source: OPM (2013)
4. Efficiency and the budget process

Among the different options for raising additional resources for HIV/AIDS, Burkina Faso has several ways to close the funding gap that is expected to grow with a decrease in donor funding. In practice, it is likely that additional resources will be generated from a mix of efficiency savings, increased public spending, and earmarked funding from innovative sources. These sources are not independent, as increased public spending is expected to affect sector efficiency. Thus, any funding mix must be thought through in terms of its impact on the effectiveness and efficiency of HIV/AIDS service delivery. Although the potential for additional fiscal space for HIV/AIDS has been identified, its operationalisation is likely to be challenging.

Even if the HIV/AIDS response is underfunded, and scaling-up put at risk if no new initiatives for additional funding are taken, key stakeholders such as the ministries of finance and health do not necessarily see it as a priority area for investment. This may be for a variety of reasons, but important contributing factors are that the sector is seen to be benefitting from international support, and that HIV/AIDS programmes are perceived to be lacking in efficiency and effectiveness, which appears to be correct on the available empirical evidence.

This then defined the specific policy puzzle that Burkina Faso faces in terms of HIV/AIDS funding:

- Doubts about the effectiveness and the efficiency of the HIV/AIDS response leads to unwillingness on the part of key stakeholders such as the ministry of finance to increase public spending on HIV/AIDS (also in the light of high donor contributions).
- Yet, the impact on the economy of not scaling up the HIV/AIDS response is believed to be potentially important, suggesting that the ministry of finance has a key interest in ensuring that an effective response with high coverage rates is implemented.
- Scaling up the response will have to be financed predominantly out of domestic resources, including efficiency savings.
- Efficiency savings are notoriously complex to achieve, and they take time to filter through to the budgeting process. Yet, the costing of the HIV/AIDS plan over the coming years is based on the assumption of accelerated funding in the short term, as only accelerated investment in the short run will achieve high impact and keep future costs down.

A necessary step in unlocking this policy puzzle is that the HIV/AIDS sector offers demonstrably good value for money. This will require dedicated effort over a few years before it is translated into effective monetary savings. All stakeholders would need to have the willingness (supported by the right incentives) to achieve this. A detailed and systematic estimation of the level of inefficiency is necessary to identify areas where efficiency gains can be made. Efficiency gains usually take a long time to be realised as they require system-strengthening interventions that need five to ten years to take effect.

The National AIDS Commission should identify a reform programme that will improve efficiency, and commit to achieving progress on a number of key performance indicators agreed with the ministry of finance. In return, the latter should commit to gradually increasing funding to the level deemed appropriate, within overall macro-fiscal constraints, and taking into account the different competing priorities of the government.
5. Discussion

For the HIV/AIDS sector to gain and retain the attention of the ministry of finance, a fiscal space analysis focusing on efficiency and domestic resources could be a useful tool. It provides a clear view on the resources required to implement the HIV/AIDS programme over time and sets this out against the available resources, showing any funding gap.

For the ministry of finance, this type of analysis highlights the financing challenges of the HIV/AIDS sector within a macroeconomic framework they understand and trust. Financial gaps calculated within the confines of realistic growth and fiscal profiles will be taken more seriously than a simple budgetary request for greater allocation. The document could provide evidence of the wider impact of inaction (e.g. not investing in HIV/AIDS and thereby reducing productive lifespans, and the effect that this could have on the economy, might be a factor the ministry would be interested in).

For the ministry of health, the analysis highlights the need for internal reforms as a prerequisite to increased funding (i.e. it presents a case that otherwise might not have been considered when asking for greater funding). The focus on macroeconomic and fiscal issues, as well as efficiency, can focus the health ministry’s attention on how their sector relates to the wider national interests. This can provide a catalyst to investing in the production of indicators to show sector performance – including efficiency improvements, which probably would require in-depth technical efficiency studies to identify sources of inefficiency.

For improved future dialogue and adequate budgetary allocations, the ministries of health and finance could work together to create a sustainable medium-term sector plan. This would include financing projections and efficiency actions to be undertaken. Within this joint framework, a performance matrix could be put in place. This would outline annual targets for efficiency gains and, if achieved, budgetary allocation could rise as per the medium-term plan, thereby improving planning and budgeting linkages as well as efficiency. This could result in a more reliable and sustainable domestically funded sector.
6. Group work (role play)

In this role play, delegates will be divided into four groups. Two groups will represent the ministry of finance and will argue against additional public investments for HIV/AIDS sector. The other two groups will represent the ministry of health and will argue for additional investments to the HIV/AIDS sector. The groups will form their positions, nominate a spokesperson who will then speak on behalf of the groups.

1. Group 1 should formulate and present arguments to support the following statement: The ministry of finance in Burkina Faso should increase investments in HIV/AIDS (3 minutes)

2. Group 2 should formulate and present arguments to support the following statement: The ministry of finance in Burkina Faso should NOT increase investments in HIV/AIDS (3 minutes)

3. Group 1 response (1 minute)

4. Group 2 response (1 minute)

5. Groups 3 and 4 will vote who won the debate

6. Group 3 should formulate and present arguments to support the following statement: The ministry of finance and the ministry of health should work together to plug the HIV funding gap by increasing technical efficiency savings. (3 minutes)

7. Group 4 should formulate and present arguments to support the following statement: It is not possible to plug the HIV funding gap by increasing the efficiency of the HIV response, as in reality monetary savings are elusive, and do not generate programmatic funding for the HIV response. Instead, the focus should be on other solutions focussing on additional financial resources for HIV such as increased public spending and hypothecated taxes. (3 minutes)

8. Group 3 (ministry of finance) response (1 minute)

9. Group 4 (ministry of health) response (1 minute)

10. Groups 1 and 2 will vote who won the debate

11. Facilitator invites final comments and concludes
References


