

# Health Financing & Taxation for Sustainable Healthcare.

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Jaflo Limited | Block 3 | 106 Brookside Drive | Westlands

P. O. Box 25112-00100 Nairobi-Kenya

Contacts

Email: [info@taxjusticeafrica.net](mailto:info@taxjusticeafrica.net)

Tel: +254 728279368]

Website: [www.taxjusticeafrica.net](http://www.taxjusticeafrica.net)

Acknowledgments

Author: Mustapha Ndajiwo, Consultant

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# TABLE OF ABBREVIATIONS

AU	African Union
BEPS	Base Erosion and Profits Shifting
CCCTB	common consolidated corporate tax base
CIT	company's income tax
COVID-19	Corona virus 2019
CRS MCAA	Common Reporting Standard Multilateral Competent Authority Agreement
CSO	civil society organisations
DTTs	double taxation treaties
EHP	essential health package
EPZ	export processing zones
EVD	Ebola virus disease
FDI	foreign direct investment
FTC	Financial Transparency Coalition
GATJ	Global Alliance for Tax Justice
GDP	gross domestic product
GFI	Global Financial Integrity
GNP	gross national product
HDI	Human Development Index
HISP	Health Insurance Subsidy Programme
IBP	International Budget Partnership
ICIJ	International Consortium of Investigative Journalists
IDA	investment deductions allowance
IDSR	Integrated Disease Surveillance and Response
IFF	Illicit financial flows
IFI	independent fiscal institutions
IMF	International Monetary Fund
IRS	Industrial Rebate Scheme
KShs	Kenyan shillings
LAC	Latin American and the Caribbean
MGDS	Malawi Growth and Development Strategy
MK	Malawian kwacha
MMR	maternal mortality ratios
MTP	Multi-term Plan
NHIF	National Hospital Insurance Fund
NIFC	Nairobi International Financial Centre
OBR	Office Burundais des Recettes
ODA	other development assistance
OECD	Organisation for Economic Cooperation and Development
PPT	petroleum profits tax
SADC	Southern Africa Development Community
SDG	sustainable development goals
SEZ	special economic zone
SWOT	Strength, weakness, opportunities, threats
TB	Tuberculosis
THE	total health expenditure
TJNA	Tax Justice Network Africa
UHC	universal health coverage
UN	United Nations
UTFA	unitary taxation with a formulary apportionment
VAT	value added tax
WHO	World Health Organisation

# EXECUTIVE SUMMARY

In recent years, the outbreaks of diseases such as the Ebola Virus Disease and yellow fever have highlighted the vulnerability of healthcare systems in Africa to public health emergencies. As the world faces the Corona Virus (COVID-19) pandemic, the inadequacy of healthcare facilities and proper disease response systems has never been more apparent. Africa has the lowest health spending, accounting for only about 1% of global healthcare expenditure. Consequently, many Africans are pushed into poverty every year due to high out-of-pocket payments on health, and many die annually from preventable diseases.

Universal Health Coverage is a central part of Sustainable Development Goals 3 (SDG 3). Global Health financing is guided by the principle of Universal Health Coverage (UHC). This means that everyone receives needed health assistance without financial hardship - that all people and communities can use the promotive, preventive, curative, rehabilitative, and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose them to financial hardship. UHC is based on the WHO Constitution of 1948, which declared the right to health as a fundamental human right and on the Health for All agenda set by the Alma Ata declaration in 1978. UHC has five major elements: equity in access to health services so that everyone who needs services should get them, not only those who can afford; that the quality of health services should be good enough to improve the health of those receiving services; protection against financial risk, ensuring that the cost of using services does not put people at risk of financial harm;<sup>1</sup> preparedness: strengthening health security, and governance: establishing political and institutional foundations for the UHC programs.

UHC, as a health-for-all principle, has moral, economic and legal bases. To make progress towards achieving universal health coverage (UHC) African governments need to increase their investment in public health and meet commitments such as the African Union's (AU) Abuja Declaration of 15% annual budget allocation to health. A major way to achieve this is through fair macro-economic fiscal policies including equitable and progressive taxation, and by tackling harmful tax practices such as tax evasion and avoidance. Additionally, public health spending through efficient, transparent and accountable allocation and actual disbursement based on disaggregated data, which promotes good health, is important and a fundamental human right as enshrined

in the WHO Alma Ata Declaration.<sup>2</sup>

The overall objective of this study is to find out the level of progress the five countries (Kenya, Malawi, Burundi, Nigeria and South Sudan) are making towards the implementation and the attainment of Universal Health Coverage to achieve SDG 3. Other specific objectives include assessing the status of the implementation of the AU Abuja Declaration on Health Financing in Africa; to identify and discuss the challenges of taxation for sustainable health and programs, and to recommend solutions including strategies for advocacy.

The study is a desk study that involved an extensive literature review. The study collected relevant data and analysed the five jurisdictions of study by identifying existing policies, frameworks and programmes; implementation issues and progress. The data collected include data related to the economy of the countries, health financing, taxation, including illicit financial flows and efforts made by the countries to address the challenges.

## Key Findings

None of the five countries has met the Abuja declaration recommendation of allocating at least 15 percent of the total budget to the health sector, and none matches the global life expectancy of 72.4 years. Additionally, none of these countries has met the SDG – 3 targets of reducing neonatal mortality to 12 deaths per 1000 live births, and under five-years old mortality to 25 deaths per 1000 live births.

Tax compliance remains a major issue in all five of the countries. There is a large informal sector that is not adequately captured by the tax net. Furthermore, Africa loses US\$50 billion annually due to illicit financial flows, with 30.5 percent of this attributable to Nigeria alone. Malawi loses, on average, US\$650 million per year in illicit outflows and Burundi an estimated six percent of its GDP annually to illicit financial flows.

Furthermore, tax incentives and double taxation agreements are creating an avenue for leakages of potential tax revenue. For example, Nigeria loses up to 0.5 percent of its GDP (US\$2.6 billion per year) in corporate income tax incentives given to companies with pioneer status alone. Kenya loses about US\$ 1.1 billion a year from tax incentives and exemptions.

The response to the COVID-19 pandemic by some African

1 Ibid.

2 See [https://www.who.int/publications/almaata\\_declaration\\_en.pdf?ua=1](https://www.who.int/publications/almaata_declaration_en.pdf?ua=1)

countries has been commendable, both from the health measures, and the efforts to minimise the socio-economic impact. However, a lot still needs to be done to prepare better for pandemics and to cushion against negative socio-economic impact.

## What should African countries do to address health financing challenges?

African countries should embrace the open budget initiative, which ensures budget participation, an inclusive budget process, and the publication of adequate budget information for transparency purposes.

African countries should employ zero-based budgeting to ensure that every line item is justified to attain efficiency.

They should strive to increase budgetary allocation to the public health sector to at least 15 percent of their annual budget. Beyond funding, they should also track the actual disbursement and monitor its effects to ensure allocation is effective. Additionally, they should employ gender budgeting and mainstream gender into their budgeting process, to address the inequalities that exist between the different genders.

African countries should create a strong link between fiscal policy and health policy and work towards increasing awareness and simplification of tax payment. Further, they should improve the state-citizen relationship through improved transparency and accountability to foster acceptance, improve tax morale, and voluntary tax compliance.

African countries should review their tax incentives framework by phasing out profit-based incentives, ensure cost-benefit analysis is conducted before granting them. Incentives should be subject to the parliamentary process and the cost of tax expenditures published annually.

African countries should collectively pursue the adoption of unitary taxation with a formulary apportionment as a replacement to the current separate entity standard to ensure that revenues generated in African countries are taxed in Africa.

African countries should strengthen the capacity of specific regulatory institutions such as Financial Intelligence Units, revenue authorities, and other regulatory bodies mandated to fight financial crime. Local exchange of information should be carried out between the relevant regulatory bodies, for example sharing information on suspicious transactions.

African countries should subscribe to the Global Forum of Transparency on Exchange of Information for Tax Purposes and implement Automatic Exchange of Information (AEOI) programs, public country by country reporting (PCBCR), and set up beneficial ownership registers. This will help address issues such as money laundering, tax evasion,

terrorism financing, bribery and corruption and many other harmful financial practices.

African countries should introduce, where absent, taxes such as tobacco taxes and tax on alcohol to discourage risky health behaviours and increase revenues to address health challenges arising from their consumption.

## What should Civil Society Organisations do?

### • Conduct Empirical Research

Conducting empirical research and gathering information on the subject matter will lay a strong foundation for effective advocacy. The research will ensure that there is an understanding of the problem, the context, and the nuances among different African countries.

To achieve an in-depth knowledge of the issue, a thematic approach is required and the three core themes to consider are health, taxation and public expenditure in the countries of studies. These three themes will provide a robust analytical framework to identify the relevant data to collect, the heterogeneity or homogeneity of the cases and the best approach to resolve the challenges.

In conducting the research, a mixed-method approach would be best – an explanatory design approach which starts with the collection of quantitative data followed by the collection of qualitative data will provide a detailed understanding of the issue and a good basis for analysing and interpreting the quantitative data collected.

### • Capacity building

Actors should be trained based on the three thematic areas to give them a strong understanding of the issues and how best to address them. This should include training on: (i) Data collection (ii) Research and analysis (iii) Use of analytical tools such as: stakeholder mapping; power analysis; Alignment Interest Matrix; Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis, (iv) Understanding of global and universal frameworks on health financing and taxation to enable designing and applying advocacy strategies, etc.

CSO actors should also be trained on how to develop indices and matrices to measure and compare progress in the thematic areas for the different countries using robust analytical frameworks. Further, actors should be trained in communication for more effective advocacy.

### • Effective Communication

CSOs should use different means of effective communication to amplify their work and create the necessary impact to inspire social change. This means can be achieved through portraying the issue as a systemic issue, one which has socio-economic implications,

including impacts on health, livelihoods and the economy at large.

CSOs should show the linkages between issues such as illicit financial flows, limited transparency in the public finance space, and the health conditions in Africa. This will provide both the public, the policymakers, and relevant stakeholders a better perspective of these challenges to health care funding in the region.

CSOs, including faith-based CSOs, should develop a unified and common message. This message should be communicated through different channels of communication such as TV, radio, print media, electronic media, community outreach etc. These channels should reflect stakeholders' needs. The channels can be used to disseminate policy papers, blogs, infographics, documentaries, talk shows, and the use of websites to track and publish policy implementation in African countries and to report findings of their research.

- **Coalition Building**

CSOs should form a network of like-minded groups and individuals, based on the thematic areas analysed in this paper. Members of this coalition should identify common issues that bring them together, agree on an ideological approach underpinned by social justice, engage in collaborative research, and peer learning to form a strong position on the issue. Furthermore, the coalition should engage in coordinated campaigns and strategic advocacy, including identifying champions followed by routine evaluation of their strategies and outcomes.



# INTRODUCTION

**H**ealth financing in Africa remains a significant development challenge as many Africans are pushed into poverty every year due to high out-of-pocket payments on health. This coupled with a high disease burden, infant mortality, poor sexual reproductive health, just to mention a few, has huge implications for the continent's economic transformational Agenda 2063. In recent years, the outbreaks of diseases such as the Ebola Virus Disease (EVD) and yellow fever have highlighted the vulnerability of healthcare systems in Africa to public health emergencies. As the world faces the global Corona Virus (COVID-19) pandemic, the inadequacy of healthcare facilities and proper disease response systems has never been more apparent. Africa has the lowest health spending, accounting for only about 1% of global healthcare expenditure.

To progress towards achieving universal health coverage (UHC) - a central part of Sustainable Development Goals 3 (SDG 3), national governments need to increase their investment in health and meet commitments such as the African Union's (AU) Abuja 15% annual budget allocation to health, or 5% of annual GDP as government healthcare expenditure. A major way to achieve this is through fair macro-economic fiscal policies including equitable, progressive and gender-sensitive taxation, and by tackling malpractices such as tax evasion and avoidance. Additionally, well-organized public health spending through efficient, transparent and accountable allocation which promotes good health, is important.

Sustainable health financing and taxation for sustainable healthcare is a priority advocacy issue for Africa, with a focus on the interplay with tax policies, health spending through the lenses of global, regional and national protocols and declaration. Currently, the implications of tax regimes on health financing in Africa remain a knowledge gap and there is a consensus that taxation is the most sustainable means of financing development; hence it is important to include taxation in Africa in the conversations of attaining Universal Health Coverage. Much of the work on health has focused mainly on the expenditure while ignoring the revenue perspective, particularly taxation. This latter aspect is part of the major highlights of this analysis.

## Research Objective

The overall objective of this study is to identify the level of progress the five countries (Kenya, Malawi, Burundi, Nigeria and South Sudan) are making towards the implementation and the attainment of Universal Health Coverage to achieve SDG 3. Other specific objectives include assessing the status of the implementation of the AU Abuja Declaration on Health Financing in Africa; to identify and discuss tax challenges in Africa, and to recommend strategies and areas for advocacy focus by accessing national and other protocols on health financing and taxation. The study focuses on a desk study of existing policies and frameworks on health financing and taxation for sustainable healthcare and of

implementation in five countries.

## Research Questions

What is the status of the implementation of the Abuja declaration in Africa?

What are African countries doing to attain Universal Health Coverage?

Which countries are making the most progress in attaining Universal Health Coverage?

What are the challenges facing financing for health in Africa?

What are the measures the countries are taking to ensure sustainable taxation and financing for health in Africa?

What should African countries do to ensure sustainable financing for health?

What steps should civil society organisations take to better advocate for sustainable taxation and financing for health?

## Methodology

The study is a desk study; it starts with an extensive literature review, which involves identifying the most relevant literature, related organisations and factors related to health financing and taxation at the global, regional and national levels. The process involved identifying existing policies, frameworks and programmes; implementation issues and progress. The literature review provides an understanding of health financing in Africa, the main factors to consider in analysing health financing, the approach used, and efforts made by countries and relevant international organisations, to address the challenges facing health financing in Africa with specific inclusion of a tax perspective and reference to the countries mentioned above.

The study collected relevant secondary data related to health financing in Africa, including data on the implementation of the Abuja Declaration in the countries of study; data on out of pocket payments, sexual reproductive health, public health finance, health insurance, and other factors related to the attainment of Universal Health Coverage. Additionally, the study collected tax-related data such as; tax to GDP ratio, illicit financial flows, tax incentives, and per capita data, among others.

After an extensive literature review and data collection, the study analysed the five jurisdictions of study, namely Kenya, Malawi, Burundi, Nigeria and South Sudan. The study collected data on the health indices in the countries, discussed the necessary steps the countries have taken towards attaining UHC, including the existing policies and frameworks. Further, the study examined the challenges facing financing for health and specifically discussed and analysed the tax challenges concerning health financing

and the measures the countries have taken to address the challenges. Recommendations were made at the end of the study.

Sources of data include but are not limited to: the literature on health financing in Africa, national health policy documents, national budget documents, Ministries of Health, Ministries of Finance and Development Planning, World Health Organization (WHO), the World Bank, Christian Aid, Tax Justice Network Africa etc.

## LITERATURE REVIEW

### Introduction

The African continent has made improvements in population health outcomes in the past twenty years; however, these improvements still fall below the targets set for the region with varying experiences across different countries. Health challenges are significantly prevalent and financing health has become even more challenging and this has placed greater demands on the health system of the continent.<sup>3</sup>

The Agenda for Sustainable Development 2030 as envisioned by the United Nations (UN) through the sustainable development goals (SDGs) dedicates one of its Goals to Health – SDG 3. Under SDG 3, there are 13 targets which include reducing global maternal mortality and infant/child mortality, attaining universal health coverage and increasing health financing to mention a few.<sup>4</sup> Similarly, one of the Agenda 2063 aspirations stresses the importance of health – “Africa shall be a prosperous continent, with the means and resources to drive its own development, with sustainable and long-term stewardship of its resources and where African people have a high standard of living, and quality of life, sound health and well-being”<sup>5</sup>

Africa continues to grapple with several health challenges which are reflected in its poor health statistics. While there have been notable improvements in certain health targets contained in SDG 3 – ensuring healthy lives and promoting well-being for all at all ages – the statistics of the African Region remain the poorest compared to other regions of the world. The improvement in health targets in Africa and the reduction in adverse health indices may not be unconnected from the increased level of total expenditure

<sup>3</sup> WHO, *Leave no one behind: Strengthening health systems for UHCs and SDGs in Africa*, available at [https://www.afro.who.int/sites/default/files/2017-12/UHC%20framework\\_eng\\_2017-11-27\\_small.pdf](https://www.afro.who.int/sites/default/files/2017-12/UHC%20framework_eng_2017-11-27_small.pdf) accessed 07/03/2020

<sup>4</sup> For more details see <https://www.un.org/sustainabledevelopment/health/> accessed 07/03/2020

<sup>5</sup> African Union 2015, *Agenda 2063 The Africa We Want* p.2, available at [https://au.int/sites/default/files/documents/36204-doc-agenda2063\\_popular\\_version\\_en.pdf](https://au.int/sites/default/files/documents/36204-doc-agenda2063_popular_version_en.pdf) accessed 22/03/2020

on health in the Region.<sup>6</sup>

Tax revenue has increasingly become a major source of government revenue in many African countries with the average tax to GDP ratio steadily rising by 1.5% of GDP on average between 2008 and 2017.<sup>7</sup> Hence, tax revenue represents a veritable source of health finance for the government. Taxation in many African countries, however, faces many challenges such as a poor social contract, losses from ineffective tax incentives, a large *hard-to-tax* informal sector, illicit financial flows, and general low tax compliance.<sup>8</sup> This has significant implication for public financing in the region, particularly as it affects public health.<sup>9</sup>

According to the World Health Organisation (WHO), Africa had a life expectancy under 61.2 years in 2016 compared to the global life expectancy of 72 years.<sup>10</sup> In 2015, the Region had a healthy life expectancy of 52.3 years compared to the next lowest, the Eastern Mediterranean Region at 60.1 years and to the global average healthy life expectancy of 63.1 years.<sup>11</sup> Even in Africa, there is a significant difference in the healthy life expectancy between countries, with high and upper middle-income countries like Algeria, Mauritius and Seychelles having a life expectancy of between 65 to 70 years, while lower-income countries like Nigeria, Central African Republic and Uganda have a healthy life expectancy of between 44 to 49 years.<sup>12</sup>

## Mortality rates in Africa

The mortality rate in Africa has reduced remarkably. There has been a significant reduction in the crude death rate from 1474.1 per 100,000 people in 2000 to 930.8 per 100,000 people in 2015, a 37% reduction in comparison to a global reduction rate of 10%. This is attributable to a reduction in the average crude death resulting from a fall

in the top 10 causes of mortality in the region<sup>13</sup>. Morbidity and mortality from malaria, HIV/AIDS, and diarrhoeal diseases have witnessed reductions of 66, 57, and 52 percent, respectively.<sup>14</sup>

Nonetheless, according to studies, Africans aged between 30 and 70 years have a 20.7 percent chance of dying from one of the major non-communicable diseases.<sup>15</sup> The most significant factors contributing to this level of mortality include alcohol consumption, insufficient physical activity, unhealthy diets and tobacco use.<sup>16</sup>

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## Maternal healthcare

In addressing the health challenges in Africa, one of the most important issues is poor maternal healthcare due to the deleterious impact it has on women. Target 3.1<sup>17</sup> of the SDG-3 2030 agenda is focused on reducing maternal mortality to 70 per 100,000 live births in 2030.<sup>18</sup> Currently, the rate of maternal mortality<sup>19</sup> in Africa is 534 deaths per 100,000 live births compared to the world maternal mortality rate of 211 deaths per 100,000 live births.<sup>20</sup> The sub-region accounts for approximately two-thirds (196,000) of the 295,000 global maternal deaths in 2017. The region has the country with the highest maternal mortality rate in the world – South Sudan – with about 1,150 deaths per 100,000 live births.<sup>21</sup>

The global maternal mortality rates reflect the significant

6 Ibid

7 OECD, 2019. "Revenue Statistics in Africa". p. 3. Available at <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf> accessed 24/3/2020.

8 Mick Moore, Wilson Prichard & Odd-Helge Fjeldstad 2018, *Taxing Africa, Coercion, Reform and Development*, Zed Books

9 Rachel Andras & Renee Kantelberg, 2020, *Bridging The Gap: The Importance of Fiscal Justice for Achieving Women and Girls' Sexual Reproductive Health And Rights (SRHR)*, Christian Aid

10 WHO Global Health Observatory (GHO) Data 2016. [https://www.who.int/gho/mortality\\_burden\\_disease/life\\_tables/situation\\_trends\\_text/en/](https://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends_text/en/) accessed 07/3/2020.

11 WHO 2018. *The state of health in the WHO African Region: an analysis of the status of health, health services and health systems in the context of the Sustainable Development Goals*. p. 14 Brazzaville: WHO Regional Office for Africa; 2018. Licence: CC BY-NC-SA 3.0 IGO.

12 Ibid

13 The top ten diseases in Africa are Lower respiratory tract infections, HIV/AIDS, Diarrheal diseases, Malaria, Tuberculosis, Ischaemic heart disease, Stroke, Cirrhosis of the liver, road injuries and interpersonal harm.

14 WHO (2018) "The state of health in the WHO African Region: an analysis of the status of health, health services and health systems in the context of the Sustainable Development Goals". Brazzaville: WHO Regional Office for Africa; 2018. Licence: CC BY-NC-SA 3.0 IGO. p. 16

15 Ibid at p. 18

16 Ibid.

17 This can be measured by at least two indicators: maternal mortality ratio and the proportion of birth attended by skilled healthcare personnel.

18 <https://www.who.int/sdg/targets/en/> accessed 15/3/2020

19 This refers to deaths due to complications from pregnancy or child-birth

20 WHO, UNICEF, UNFPA, World Bank Group, and the United Nations Population Division. Trends in Maternal Mortality: 2000 to 2017. Geneva, World Health Organization, 2019 <https://data.worldbank.org/indicator/SH.STA.MMRT> accessed 15/3/2020

21 Ibid.

inequalities in quality healthcare,<sup>22</sup> while high-income countries have a maternal mortality rate of 11 per 100,000 births, middle-income countries have a maternal mortality rate of 177 and low middle-income countries (majorly in Africa) have a maternal mortality rate of 462 deaths per 100,000 live births.<sup>23</sup> This may be attributable to the greater level of medical facilities and larger universal healthcare coverage in high-income countries. Furthermore, the major causes of maternal mortality (severe bleeding after childbirth, infections, high blood pressure during pregnancy, complications from delivery, unsafe abortion)<sup>24</sup> are preventable or treatable. According to WHO data, there is an inverse relationship between maternal mortality ratios (MMRs) and the proportion of women aged between 15 and 49 years with their contraception needs to be met with modern methods; similarly, there is an inverse correlation between MMRs and the proportion of women receiving quality care from a skilled health professional.<sup>25</sup>

The rate of maternal mortality in Africa is 534 deaths per 100,000 live births compared to the world maternal mortality rate of 211 deaths per 100,000 live birth.

## Child healthcare in Africa

Target 3.2 of SDG-3 focuses on how to end preventable deaths of new-borns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1000 live births and under-5 mortality to at least as low as 25 per 1000 live births by 2030. Evidence on Child mortality in Africa show a reduction in the rate of child deaths in the region but a significant gap between the African Region and the rest of the world still exist. Globally, the under-five mortality rate has decreased by 59% such that while in 1990, 1 in 11 children died before reaching age 5, only 1 in 26 died before reaching 5 in 2018.<sup>26</sup> The annual rate of reduction in the global under-five mortality rate has increased from 2.0% in 1990–2000 to 3.8% in 2000–2018.<sup>27</sup> Nevertheless, of the estimated 5.3 million children under age 5 who died

<sup>22</sup>WHO, *Maternal Mortality key Facts*, available at <https://www.who.int/news-room/fact-sheets/detail/maternal-mortality> accessed 12/04/2020

<sup>23</sup> Ibid.

<sup>24</sup> WHO 2019 <https://www.who.int/news-room/fact-sheets/detail/maternal-mortality> accessed 15/3/2020

<sup>25</sup> World health statistics 2019: monitoring health for the SDGs, sustainable development goals. Geneva: World Health Organization; 2019. Licence: CC BY-NC-SA 3.0 IGO p. 12. <https://apps.who.int/iris/bitstream/handle/10665/324835/9789241565707-eng.pdf> accessed 15/3/2020

<sup>26</sup> WHO Global Health Observatory (GHO) data [https://www.who.int/gho/child\\_health/mortality/mortality\\_under\\_five\\_text/en/](https://www.who.int/gho/child_health/mortality/mortality_under_five_text/en/) accessed 15/3/2020

<sup>27</sup> <https://data.unicef.org/topic/child-survival/under-five-mortality/> accessed 15/3/2020

in 2018 – roughly half of those deaths occurred in sub-Saharan Africa<sup>28</sup>. The risk of a child dying before attaining the age of 5 (under-5 mortality) is reported to be highest in the WHO African Region – about 76 deaths per 1000 live births.<sup>29</sup>

For neo-natal mortality<sup>30</sup>, the decline from 1990 to 2018 has been slower than that of post-neonatal under-5 mortality. Sub-Saharan Africa had the highest neonatal mortality rate in 2018 at 28 deaths per 1,000 live births.<sup>31</sup> A child born in sub-Saharan Africa or in Southern Asia is 10 times more likely to die in the first month than a child born in a high-income country.<sup>32</sup> Although the challenges seem daunting, it is possible to improve the survival and health of new-borns and end preventable stillbirths by reaching high coverage of quality antenatal care, skilled care at birth, post-natal care for mother and baby, and care of small and sick new-borns.<sup>33</sup>

A child born in sub-Saharan Africa or in Southern Asia is 10 times more likely to die in the first month than a child born in a high income country.

## Gender-based implications

Adverse health indices in Africa have nuanced gender-based effects. Overall, when it comes to average life expectancy, women live longer than men, but the additional years are not always healthy. Globally, the average life expectancy of boys at birth is 69.8 years compared to the girls – 74.2 – a difference of 4.4 years.<sup>34</sup> Healthy life expectancy at birth is also greater in women than men (64.8 versus 62.0). At age 60, women have a healthy life expectancy of 16.8 compared to 14.8 for men. However, women lose more healthy life through living in poor health after birth than men. 9.5 years of healthy life is lost by women living in poor health after birth compared to men who lose about 7.8 years.<sup>35</sup> According to Doyal,<sup>36</sup> these health challenges women face are exacerbated

<sup>28</sup> Ibid.

<sup>29</sup> WHO Global Health Observatory (GHO) data [https://www.who.int/gho/child\\_health/mortality/mortality\\_under\\_five\\_text/en/](https://www.who.int/gho/child_health/mortality/mortality_under_five_text/en/) accessed 15/3/2020

<sup>30</sup> This is death in the first 28 days of life.

<sup>31</sup> WHO 2019, *New-borns: reducing mortality*, available at <https://www.who.int/news-room/fact-sheets/detail/newborns-reducing-mortality> accessed 07/03/2020

<sup>32</sup> Ibid.

<sup>33</sup> Ibid

<sup>34</sup> World health statistics overview 2019: monitoring health for the SDGs, sustainable development goals. Geneva: World Health Organization; 2019. p. 2. Available at <https://reliefweb.int/sites/reliefweb.int/files/resources/WHO-DAD-2019.1-eng.pdf> Accessed 15/3/2020

<sup>35</sup> Ibid. p. 2.

<sup>36</sup> Lesley Doyal 1995, *What Makes Women Sick*, Springer

by the failure in addressing the gender inequality, for example, less attention is given to diseases that affect women such as cervical cancer in comparison to diseases that affect more men than women.

The causes of poor female life expectancy include breast cancer (by 0.30 years), maternal conditions (0.23 years) and cervical cancer (0.15 years). These diseases need a significant amount of resources to tackle, unfortunately, they are not necessarily available. In contrast, the main causes of poor life expectancy in males in Africa, which is lower than that of females are ischaemic heart disease (0.84 years), road injuries (0.47), lung cancers (0.40), chronic obstructive pulmonary disease (0.36), stroke (0.32), cirrhosis of the liver (0.27), tuberculosis (TB) (0.23), prostate cancer (0.22) and interpersonal violence (0.21).<sup>37</sup>

## COVID-19 and Disease Response Monitoring

The Corona Virus Pandemic has brought to attention the weakness of public healthcare systems in many African countries particularly because of poor disease surveillance systems<sup>38</sup> which can be attributed to poor health financing, which in turn stems from weak tax systems and low budgetary allocation to the health sector. While grappling with diseases such as malaria, tuberculosis, measles and HIV – some of the leading causes of mortality in Africa – many African countries are still not prepared to respond to outbreaks of infectious diseases and when outbreaks occur, they stand the risk of diverting medical resources allocated to other healthcare problems to the outbreak.

For example, the 2014–2015 Ebola outbreak in West Africa severely impacted the healthcare systems of affected countries, with an adverse effect on diagnosis and treatment for endemic diseases such as malaria, HIV/AIDS, and tuberculosis (TB). Furthermore, deaths of several healthcare workers and the impact on healthcare facilities caused by increased numbers of patients resulted in the closure of many clinics. This led to an interruption in the routine health delivery services, including HIV testing, childhood vaccinations, and maternity care. According to reports, Liberia lost 8% of its doctors, nurses, and midwives to the Ebola virus.<sup>39</sup>

37 World health statistics 2019: monitoring health for the SDGs, sustainable development goals. Geneva: World Health Organization; 2019. Licence: CC BY-NC-SA 3.0 IGO p. 3. <https://apps.who.int/iris/bitstream/handle/10665/324835/9789241565707-eng.pdf> Accessed 15/3/2020

38 WHO, 2019, *Regional Strategy for Integrated Disease Surveillance and Response*, available at <https://www.afro.who.int/sites/default/files/2019-08/AFR-RC69-6%20Regional%20Strategy%20for%20IDSR%202020-2030.pdf> accessed 15/3/2020

39 David K Evansa, Markus Goldstein, Anna Popova. 2015. "Health-care worker mortality and the legacy of the Ebola epidemic external icon." *The Lancet Global Health* 3 (8): e439–e440. Accessed 4/6/20. doi:10.1016/S2214-109X (15)00065-0

African countries score low in providing essential health services. Countries that experience, disease outbreaks will witness significant reductions in health services outcomes because of poor resilience, something critically needed to ensure the delivery of essential services during outbreaks and disasters.<sup>40</sup>

Evidence suggests that the level of income of a country has a positive correlation with the level of resilience.<sup>41</sup> Besides, countries with higher levels of total health expenditure show a higher level of resilience.<sup>42</sup> This indicates that increased investments in healthcare can boost the resilience of healthcare systems in Africa during disease outbreaks.

As COVID-19 spreads across the continent, the strain on health systems in Africa is starting to be felt. Again, it is apparent that Africa does not have the financial or technical capacity to cope with outbreaks of infectious diseases. This is largely attributable to a weak tax system that is not capable of raising the required revenue due to challenges such as IFFs and poor budgeting low budgetary allocation to the health sector.

In the aftermath of the outbreak of the EVD and the inadequate detection and response to the outbreak, African countries were urged by the WHO to implement the Integrated Disease Surveillance and Response (IDSR) system to improve the flow of surveillance information in order monitor spread of disease, evaluate the effectiveness of control and preventive measures, support planning, and, allocation of resources in the health system. Although there was some level of commitment by many countries in Africa, few countries established the mechanisms and resources needed for integrated surveillance and timely response to public health events.<sup>43</sup>

The COVID-19 pandemic is exerting a negative impact on the global economy, however, and mid-low-income countries in Africa are worse hit by the global economic shutdown. According to the World Bank, economic growth in Africa has been impacted negatively with growth forecast going from 2.4% in 2019 to -5% in 2020. According to the report, the pandemic will cost Africa between \$37 billion and \$79 billion due to trade disruptions, reduced remittances, IFFS, reduction in FDI, the impact on health systems and the increased need to spend on containment measures and public response. Furthermore, the pandemic, if it continues, is likely to bring about a food

40 WHO (2018) "The state of health in the WHO African Region: an analysis of the status of health, health services and health systems in the context of the Sustainable Development Goals". Brazzaville: WHO Regional Office for Africa; 2018. Licence: CC BY-NC-SA 3.0 IGO. p. 52

41 Ibid.

42 Ibid.

43 For more details see <https://www.afro.who.int/news/who-scales-implementation-integrated-disease-surveillance-tools-africa> Accessed 4/6/2020.

crisis in the continent.<sup>44</sup>

Following the outbreak of COVID-19, the WHO is again supporting African governments, providing thousands of COVID-19 testing kits to countries, training dozens of health workers, and strengthening surveillance in communities. China, the epicentre of the pandemic, is also assisting countries worldwide to supply test kits and facemasks in a bid to curtail the pandemic.<sup>45</sup>

African countries on their own have taken steps to prevent the spread of the disease in their countries, however, questions remain on the feasibility of some of the measures recommended by the WHO. To prevent the spread of the COVID-19, four major things are recommended: staying indoors, maintaining social distance, washing hands with soap under running tap water or the use of hand sanitisers; and practising self-isolation if one suspects they may have been in contact with a patient or if they notice symptoms of the disease. These recommendations, although very effective and useful, may not necessarily be easily applicable to African countries because many Africans are poor, live in congested areas with lack of adequate water, and cannot afford to stay at home without food supplies.

Some African countries have taken measures to reduce the economic impact of the pandemic by making conditional cash transfers, food supply and relief from payment of electricity and water in some cases. From the tax perspective, countries such as Nigeria have allowed for late submission of tax returns,<sup>46</sup> while Kenya made plans to relieve low-income earners from paying taxes, reduced VAT rate from 16% to 14%, and reduced resident corporate tax rates from 30% to 25% for resident companies.<sup>47</sup> It is, however, unclear how impactful these tax measures will be on the most vulnerable of the society as compared to large companies already benefitting from the array of tax incentives in the country.

Developed countries such as Denmark and Poland have also introduced reliefs in form of bailouts to companies due to the impact of COVID-19. However, as a measure to ensure fairness, companies registered in offshore tax

havens have been denied the bailouts.<sup>48</sup> It is, however, yet to be seen if such a criteria would be adopted by African countries, especially as the impact on IFFs is significant on the continent.

Africa is particularly vulnerable not only because of the limited capacity of its healthcare systems to respond to a pandemic, but also because the risk factors of COVID-19 and indeed other infectious diseases are higher for populations dealing with malnutrition and endemic diseases such as malaria, tuberculosis or HIV/AIDS. Without adequate financing to respond to pandemics such as COVID-19, the African region risks many deaths, induced poverty, and significant economic vulnerability including worsening inequality.

## Health Financing

Healthcare in many African countries faces major challenges of under-funding. Over the past years, the proportion of total government budgets allocated to the health sector in many African countries has reduced. While economic growth has reduced the level of poverty on the continent from 54% in 1990 to 41% of the population in 2015,<sup>49</sup> government spending on poverty-reducing programs and spending in sectors important for the poor has not often been adequate, efficient and impactful. The health sector is no exception to this challenge; hence, many African countries still contend with high levels of child and maternal mortality. Many health systems are also unable to deal with the scourge of epidemics and chronic diseases such as diabetes.<sup>50</sup>

A study conducted using a sample of five East African countries shows that there is a significant positive relationship between total healthcare expenditures and total life expectancy and a negative relationship between healthcare expenditures and the number of neo-natal, infant, and under-five deaths in Africa.<sup>51</sup> The lowest ranges for healthcare outcomes and the SDG 3 target indicators in Africa are reported to be middle to low-income countries with lower total gross expenditure on health. To achieve

44 World Bank 2020, *COVID-19 (Coronavirus) Drives Sub-Saharan Africa Toward First Recession in 25 Years* <https://www.worldbank.org/en/news/press-release/2020/04/09/covid-19-coronavirus-drives-sub-saharan-africa-toward-first-recession-in-25-years>

45 Time 2020, *China Sends Masks, Gloves and Test Kits to Nations Affected by COVID-19* <https://time.com/5807710/china-sends-medical-supplies-coronavirus/>

46 PWC 2020, *FIRS Grants Tax Concessions in Response to COVID-19*, available at [https://pwc-nigeria.typepad.com/tax\\_matters\\_nigeria/2020/03/firs-grants-tax-concessions-in-response-to-covid-19.html](https://pwc-nigeria.typepad.com/tax_matters_nigeria/2020/03/firs-grants-tax-concessions-in-response-to-covid-19.html) accessed 10/04/2020

47 KPMG 2020, *Kenya - Tax Relief Measures to Help Taxpayers Cope with COVID-19 Crisis*, available at <https://home.kpmg/xx/en/home/insights/2020/04/flash-alert-2020-139.html> accessed 10/04/2020

48 Business Insider, *Denmark and Poland won't give financial aid to companies registered in offshore tax havens*, available at <https://www.pulse.ng/bi/finance/denmark-and-poland-are-refusing-to-bail-out-companies-registered-in-offshore-tax/cvnhkpw> accessed 27/04/2020

49 World Bank, 2019. *Accelerating Poverty Reduction in Africa: In Five Charts, World*. Available at <https://www.worldbank.org/en/region/afr/publication/accelerating-poverty-reduction-in-africa-in-five-charts> Accessed 15/3/2020

50 World Bank. 2016. *Universal Health Coverage (UHC) in Africa: A Framework for Action: Main report (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/735071472096342073/Main-report> Accessed 15/3/2020

51 Bein, M. A., Unlucan, D., Olowu, G., & Kalifa, W. (2017). Healthcare spending and health outcomes: evidence from selected East African countries. *African health sciences*, 17(1), 247–254. <https://doi.org/10.4314/ahs.v17i1.30> Accessed 15/3/2020

health outcomes in many African countries, the total expenditure on health must increase. It is therefore imperative that government budgetary allocation (as opposed to expenditure by individuals, that is, out-of-pocket expenses) must increase both in gross terms and as a proportion of total budgets.

To achieve health outcomes in many African countries, the total expenditure on health must increase. Most African countries are below half of the 15 % proposed health spending by the Abuja Declaration.

## Universal Health Coverage

Global Health financing is guided by the principle of Universal Health Coverage (UHC). This means that everyone receives needed health assistance without financial hardship - that all people and communities can use the promotive, preventive, curative, rehabilitative and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose them to financial hardship.<sup>52</sup> UHC is based on the WHO Constitution of 1948 which declared the right to health as a fundamental human right and on the Health for All agenda set by the Alma Ata declaration in 1978. UHC has five major elements: equity in access to health services, so that everyone who needs services should get them, not only those who can pay for them; that the quality of health services should be good enough to improve the health of those receiving services; protection against financial risk, ensuring that the cost of using services does not put people at risk of financial harm;<sup>53</sup> preparedness: strengthening health security, and governance: establishing political and institutional foundations for the UHC programs.<sup>54</sup>

UHC as a health-for-all principle has moral, economic and legal bases. Poorer members of the society have the rights to quality health and should not suffer death, disability or malnutrition as a result of a lack of provision of medical care which could be provided at a limited collective cost. Furthermore, ill-health and malnutrition have economic costs, for the healthy members of society are more likely to contribute to economic activities that will boost economic growth. Similarly, epidemics and lack of disease surveillance systems can also disrupt economic activities. For example, in 2015, the forgone economic growth due to Ebola amounted to more than a billion US dollars in the

three countries hit by the epidemic.<sup>55</sup>

Progress towards UHC is measured by the number of key services or coverage and the amount of financial protection available. In understanding the progress towards UHC, it is also common to look at how well resourced the health system is. This can include indicators on health system capacity (e.g. infrastructure, human resources or pandemic preparedness), and the number of financial resources dedicated to health.

Despite an unchanged level of government spending, health expenditure in Africa has increased. Total health expenditure (THE) per capita increased from \$113 in 1995 to \$306 in 2014<sup>56</sup> and on average, total health expenditure as a proportion of GDP increased from 5 % to 6 % in the same period. However, regional averages conceal the disparity in the values of total health expenditure per capita of individual countries. Whereas countries such as the Democratic Republic of Congo have total health expenditure as a proportion of GDP of 2.6, Djibouti, Lesotho and Sierra Leone which are at 11 % of GDP.<sup>57</sup> On average, the Sub-Saharan region's health expenditure as a proportion of GDP was 5.16 % in 2016.<sup>58</sup>

### • The Abuja Declaration

In the year 2001, the heads of state of African Union signed the Abuja Declaration and pledged to set a target of allocating at least 15% of their annual budget to improve the health sector.

“We commit ourselves to take all necessary measures to ensure that the needed resources are made available from all sources and that they are efficiently and effectively utilized. In addition, we pledge to set a target of allocating at least 15% of our annual budget to the improvement of the health sector...”<sup>59</sup>

At the same time, they urged donor countries to “fulfil the yet-to-be-met target of 0.7% of their GNP as official Development Assistance (ODA) to developing countries”.<sup>60</sup> However, between 2002 and 2014, the share of government spending allocated to health decreased by about half for African countries. Only four countries were above the Abuja target in 2014, even though some

55 Ibid. p. 3.

56 Ibid. p. 15.

57 Ibid.

58 For more details see <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?contextual=max&locations=ZG-1W> Accessed 15/3/2020

59 African Union, 2001, *Abuja Declaration on HIV/AIDS, Tuberculosis and other related infectious diseases* p.5 available at <https://au.int/sites/default/files/pages/32894-file-2001-abuja-declaration.pdf> Accessed 10/04/2020

60 WHO. 2011. The Abuja Declaration: Ten Years On [https://www.who.int/health\\_financing/universal\\_coverage\\_definition/en/](https://www.who.int/health_financing/universal_coverage_definition/en/) accessed 15/3/2020.

52 See [https://www.who.int/health\\_financing/universal\\_coverage\\_definition/en/](https://www.who.int/health_financing/universal_coverage_definition/en/) accessed 15/3/2020

53 Ibid.

54 World Bank. 2016. Universal Health Coverage (UHC) in Africa: A Framework for Action: Main report (English). Washington, D.C.: World Bank Group. p. 3. <http://documents.worldbank.org/curated/en/735071472096342073/Main-report> Accessed 15/3/2020

development assistance for health is included in estimates of government spending.<sup>61</sup> For countries that have met the target, questions remain on the implementation and what proportion of the 15% is allocated to core healthcare items on the budget rather than admin and other non-health related expenses.

- **Out-of-pocket expenses**

A fundamental objective of the UHC is that everyone receives needed health assistance without financial hardship. High out-of-pocket expenses put a strain on households and lead to financial hardship. A lack of buffers reflected in low levels of social health insurance and other types of insurance makes the financial strain on households higher. In 2014 for example, out-of-pocket payments increased in nearly every country in the African region, from \$15 in 1995 to \$38 in 2014.<sup>62</sup>

Based on household surveys conducted across African countries during the years 1990–2014, millions of households reported catastrophic and impoverishing health spending.<sup>63</sup> On average, 3.2 % of the population (ranging from 0.8 to 5.4 % across countries) – 35 million individuals – experienced catastrophic health payments in a given year. Similarly, almost 1.4 % of the population – about 11 million people – in low-income countries and lower middle-income countries fell into poverty because of health payments during the survey year.<sup>64</sup>



61 World Bank. 2016. Universal Health Coverage (UHC) in Africa: A Framework for Action: Main report (English). Washington, D.C.: World Bank Group. p. 15. <http://documents.worldbank.org/curated/en/735071472096342073/Main-report> Accessed 15/3/2020

62 Ibid. p. 27.

63 Ibid. p. 29.

64 Ibid.

## ➤ Domestic resource mobilisation for financing health in Africa

Achieving the SDGs requires mobilising finance to fund public goods and services and critical to this is domestic resource mobilisation. The average tax to GDP ratio<sup>65</sup> for African countries is 17.2%, about 5% below Latin America and the Caribbean (LAC) average of 22.8%, and 17% below the OECD average of 34.2%.<sup>66</sup> African countries will need to improve their revenue profile significantly if they are to finance development to attain the SDGs. However, several challenges have prevented them from raising the right amount of revenue despite their potential. These challenges stem from weak regulatory frameworks, large informal sectors, illicit financial flows (IFFs), granting of frivolous and wasteful tax incentives and having in place an international tax system that treats multinational companies in such a way that they can shift the profits made in Africa to other low or no-tax jurisdictions thereby depriving Africa of the revenues it deserves.<sup>67</sup>

- **Illicit Financial Flows**

According to the high-level panel report on Illicit Financial Flows, Africa loses more than \$50 billion<sup>68</sup> annually through IFFs and a significant portion of that amount comes from tax related IFFs. This has significant implications for health financing in Africa because revenues meant to make healthcare accessible and affordable leave the continent causing it a myriad of unresolved problems which include a worrisome debt profile and a huge reliance on foreign aid.

According to the International Consortium of Investigative Journalists (ICIJ), many of the profits made in Africa are officially hidden away in offshore tax havens, where companies only exist on paper. The authorities in tax havens operate under secrecy laws and impose minimal or no taxes on the companies' profits.<sup>69</sup>

Countries such as Mauritius, act as a conduit for illicit financial flows from Africa by employing different complex

65 This refers to total tax revenue, including social security contributions, as a percentage of gross domestic product (GDP). The data in this paper represents 26 countries from a survey carried out by OECD, ATAF and AU.

66 OECD 2017, <https://www.oecd-ilibrary.org/docserver/5daa24c1-en-fr.pdf?expires=1583581927&id=id&accname=guest&checksum=AADFEF-3CFD3C77B90C53E51246C14527> accessed 07/03/2020

67 Mick Moore, Wilson Prichard, and Odd-Helge Fjeldstad, 2018, *Taxing Africa: Coercion, Reform and Development*, Zed Books.

68 According to the HLPF, these estimates are modest as accurate data for all African countries do not exist.

69 International Consortium of Investigative Journalists, 2020, *Offshore Trove Exposes Trump-Russia Links And Piggy Banks Of The Wealthiest 1 Percent*, available at <https://www.icij.org/investigations/paradise-papers/paradise-papers-exposes-donald-trump-russia-links-and-piggy-banks-of-the-wealthiest-1-percent/>, accessed 16/3/2020

schemes which allow for setting up of companies that are nothing but mere addresses on a piece of paper. This scheme has helped corporations shift between US\$100 billion and US\$300 billion a year in tax revenue away from developing countries.<sup>70</sup>

- **Separate Entity Principle**

The foundation of many of these base erosion and profit shifting strategies lies in the current system of international taxation, the so-called *separate entity principle*, modelled after the Organisation for Economic Cooperation and Development (OECD) Transfer Pricing Guidelines.<sup>71</sup> The separate entity principle treats multinational companies that operate under a common group and common ownership with common interest as separate and independent and expects them to operate at *arms-length*.<sup>72</sup> This creates room for most of the base erosion and profit shifting strategies around today. Efforts have been made by the OECD and Inclusive Framework through the Base Erosion and Profit Shifting (BEPS) project to curtail harmful tax practices but the separate entity principle still exists today and it is highly unlikely that the OECD, which has a significant influence on the global tax rules, will be doing away with it soon<sup>73</sup>

- **Unitary Taxation with a Formulary Apportionment**

The current framework of international taxation is not in favour of developing countries, which has seen calls for a new, more equitable system - unitary taxation with a formulary apportionment (UTFA). The Unitary taxation requires a multinational group to be treated as a single entity. This is premised on the fact that multinationals operate through the synergy and harmony of their activities (internal transactions in the form of finance and labour within the group) which is channelled toward the general group. Thus, a multinational group is just a single entity with a common interest and common ownership where the different entities work differently to attain a single goal.<sup>74</sup>

Under the formulary apportionment approach, a

formula is employed to allocate the overall profits of the multinationals to different states it operates in.<sup>75</sup> In the United States, for example, multinationals profits in the country are apportioned based on value created by the subsidiary of the multinationals in those states and this is also done in Canada provinces and Swiss cantons. The European Union Common Consolidated Corporate Tax Base (CCCTB) project also envisages applying the formulary apportionment to multinationals within the union to share profits across member states based on the intensity of economic activities in the states. The multinationals must have a taxable presence in the tax jurisdiction and the contribution of the subsidiary in the jurisdiction must be worthwhile.<sup>76</sup>

In determining the allocation formula under unitary taxation, many factors have been identified in empirical literature and they include but not limited to plant, property, equipment, payroll or compensation, assets, sales, manufacturing costs, purchases, labour expenses, capital assets, etc. However, historically, formulas have been based on three main factors: payroll costs, sales and physical assets – the Massachusetts formula.<sup>77</sup> This is like the European Union's Common Consolidated Corporate Tax Base (CCCTB), although the payroll factor is equally weighted between payroll costs and headcount<sup>78</sup>.

- **Double Taxation Treaties**

Another challenge for taxation in Africa is the role and effect of harmful tax treaties on potential tax. Double taxation treaties (DTTs) are normally intended to mitigate against double taxation, to facilitate cross-border trade, and to provide a framework of taxing rights between trading countries. In many ways, DTTs affect the returns that a country can reap from foreign investment although they may serve larger political or economic purposes. Invariably, DTTs have at their very core the avoidance of taxation.<sup>79</sup> These bilaterally negotiated agreements restrict taxing rights and through the abuse of treaty networks, using shell companies, contribute to base

75 Ibid

76 EU Commission, *Common Consolidated Corporate Tax Base (CCCTB)*, available at [https://ec.europa.eu/taxation\\_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb\\_en](https://ec.europa.eu/taxation_customs/business/company-tax/common-consolidated-corporate-tax-base-ccctb_en)

77 Faccio, T.; Valpy Fitzgerald, 2018, *Sharing the Corporate Tax Base: Equitable Taxing of Multinationals and the Choice of Formulary Apportionment*, Transnational Corporations, Vol.25(2), 67-90.

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79 IMF Working Group, 2018. Sebastian Beer and Jan Loeprick, "The Cost and Benefits of Tax Treaties with Investment Hubs: Findings from Sub-Saharan Africa". p. 4. Available at <https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwjuqqq5or-PoAhURXoKHwygDxsQFjAAegQIBBAB&url=https%3A%2F%2Fwww.imf.org%2F~%2Fmedia%2FFiles%2FPublications%2FWP%2F2018%2F-wp18227.ashx&usg=AOwWaw3gAhpms7ZmzQng4LohDYL> Accessed 16/3/2020.

70 International Consortium of Investigative Journalists, 2017, *Tax Haven Mauritius' Rise Comes At The Rest Of Africa's Expense* available at <https://www.icij.org/investigations/paradise-papers/tax-haven-mauritius-africa/> Last accessed 16/3/2020

71 OECD 2017, *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations 2017*, OECD Publishing, Paris, <https://doi.org/10.1787/tpg-2017-en>.

72 Similar to how unrelated parties will conduct business or transactions at real market prices.

73 For more details see <https://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf> accessed 08/04/2020

74 Picciotto, Sol 2018, *Taxing Multinational Enterprises as Unitary Firms ICTD Working Paper 53*, ICTD.

erosion and profit shifting.<sup>80</sup>

Reports show that between 1985 and 2015, 15 countries in Sub-Saharan Africa concluded double taxation treaties with Mauritius. By positioning itself as an international financial centre providing a gateway to Africa, Mauritius' strategy includes effective taxation of corporate income at 3 %, <sup>81</sup> a major incentive to attract companies and individuals seeking to avoid or minimise taxes in Africa, because of the high average statutory rate of corporate taxation, at 28.45 % (28.15 % weighted by GDP).<sup>82</sup> Sadly, these DTTs do not always lead to increased foreign direct investment. According to a study, overall, estimations suggest that an additional tax treaty between source countries in Sub-Saharan Africa and Mauritius did not increase FDI, while revenue losses ranged between 15 and 25 % of CIT (Corporate Income Tax) revenue.<sup>83</sup>

### • Tax Incentives

A lack of transparency and adequate disclosure by governments of special tax incentives and holidays is robbing many economies in Africa of considerable revenue to fund key sectors of the economy including the health sector. Information gaps between taxpayers and tax authorities also create opportunities for abuse of the tax system. This leads to mistrust on the part of taxpayers which undermines the tax system through low tax morale<sup>84</sup> and poor fiscal legitimacy.<sup>85</sup>

African governments, by offering tax incentives and concessions are providing an avenue for leakages of potential tax revenues. These tax incentives are often motivated by a perceived need to compensate for other challenges in doing business or because of perceived competition with other jurisdictions, referred to as the *race to the bottom*.<sup>86</sup> These tax incentives are majorly profit-based rather than cost-based. Profit-based tax incentives are those preferential tax treatments or deviations from the general based on accounting profits rather than the specific costs of investment. The profit-based tax incentives of African countries are usually in

the form of tax holidays and special economic zones.<sup>87</sup> Studies suggest that profit-based incentives are costly and often not effective in attracting green-field investments (where a company builds investment in a country from the ground up).<sup>88</sup>

In a study of South Africa's tax incentives carried out by the World Bank, they concluded that, overall, tax incentives encouraged an additional investment of 2.1 billion rand each year between 2006 and 2012. However, revenue foregone amounted to about 4.5 billion rand each year over the same period.<sup>89</sup> In many African countries, losses in potential tax revenue negatively impact available government revenue to finance key sectors of the economy including health. For example, in a report by ActionAid in 2015, it was reported that Nigeria was losing up to 0.5 % of its GDP in corporate income tax incentives given to companies with pioneer status alone. Using the 2015 budget figure, the estimated losses amounted to US\$2.6 billion per year.<sup>90</sup> Additionally, some of the tax incentives are granted by discretion, without going through the parliamentary process and with no cost-benefit analysis carried out to ascertain the harmfulness or the benefit of the incentive.<sup>91</sup>

**In many African countries, losses in potential tax revenue negatively impact available government revenue to finance key sectors of the economy including health.**

In 2019, budgetary allocation to health in Nigeria was N367 billion (US\$1 billion).<sup>92</sup> Additional budgetary allocation to the health sector by injecting the \$2.6 billion loss from incentives into the sector would have increased the current budgetary allocation by 250 %. This would have created more than three times the amount of funding currently available, improved the level of infrastructure in the health sector, and improved the preparedness

80 Ibid.

81 Ibid.

82 Tax Foundation, *Corporate Tax Rates around the World, 2019*, available at <https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/> Accessed 24/3/2020.

83 Ibid.

84 The willingness to pay tax

85 The confidence citizens have in their government with regard to the collection and spending of tax revenue.

86 Markus Meinzer, Mustapha Ndajiwo, Rachel Etter-Phoya, Maimouna Diakit , (2014). Comparing Tax Incentives across Jurisdictions: A Pilot Study. p. 3. Available at [https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions\\_Tax-Justice-Network\\_2019.pdf](https://www.taxjustice.net/wp-content/uploads/2018/12/Comparing-tax-incentives-across-jurisdictions_Tax-Justice-Network_2019.pdf) Accessed 17/3/2020

87 Ibid. p. 16.

88 Ibid. p. 18.

89 World Bank, South Africa: Sector Study of Effective Tax Burden and Effectiveness of Investment Incentives in South Africa – Firm Level Analysis, 2016, 51 [http://www.taxcom.org.za/docs/Sector%20Study%20of%20Effective%20Tax%20Burden%20in%20South%20Africa%20-%20Part%202%20September%202016%20\(updated\).pdf](http://www.taxcom.org.za/docs/Sector%20Study%20of%20Effective%20Tax%20Burden%20in%20South%20Africa%20-%20Part%202%20September%202016%20(updated).pdf) Accessed 17/3/2020.

90 ActionAid 2015, *The West African Giveaway: Use and Abuse of Corporate Tax Incentives in ECOWAS*. p. 13. Available at <https://nigeria.actionaid.org/publications/2015/west-african-giveaway-use-abuse-corporate-tax-incentives-ecowas> Accessed 15/3/2020

91 Ibid

92 Ayodamola Owoseye (December 20, 2018), "Budget 2019: Buhari proposes N315 billion recurrent health expenditure", Premium Times, Retrieved from [https://www.premiumtimesng.com/health/health-news/302067-budget-2019-buhari-proposes-n315-billion-recurrent-expenditure.html%3famp\\_markup=1](https://www.premiumtimesng.com/health/health-news/302067-budget-2019-buhari-proposes-n315-billion-recurrent-expenditure.html%3famp_markup=1) Accessed 17/3/2020

towards pandemics such as COVID-19.

Although African countries differ in the way each country finances healthcare, general tax revenues constitute a significant portion of healthcare funding. To achieve universal health coverage, African countries must, therefore, shore up leakages in health funding. At the UN Conference on Financing for Development agenda established in Addis Ababa in July 2015, taxation was emphasized as central to the SDG agenda. African countries agreed to an array of measures aimed at widening the revenue base, improving tax collection, and combating tax evasion and illicit financial flows.<sup>93</sup>

## The role of Civil Society Organisations

Civil Society Organisations (CSOs) have been at the forefront of campaigns and advocacy to promote transparency, accountability and justice in many areas including health, tax and public finance. However, in many cases, the work of CSOs has met a lot of challenges. These challenges include inadequate use of evidence, limited capacity, weak strategies and limited capacity for policy influence, and, weak communication among other things.<sup>94</sup> The Overseas Development Institute recommends that for civil society organisation to be more effective, they need to employ some approaches. These include: conducting rigorous context assessment through research to understand the policy issues as well the political economy of it; ensuring that evidence generated is relevant, objective, and practical to improve legitimacy and credibility of CSOs; building coalitions, and investing in capacity building.<sup>95</sup>

Although there are existing challenges concerning the effectiveness of CSOs in Africa, CSOs in Africa have used some of these approaches to strengthen their advocacy. For example, in public finance, CSOs such as BudgIT Nigeria and the Institute of Public Finance Kenya both promote open budget initiatives in Africa to improve budget transparency and accountability. BudgIT, for example, is a budget and public finance transparency organisation striving to make budgets available to ordinary Nigerians to enable them to track public projects. The organisation has used a mix of both online and offline strategies to deliver budget information to millions of Nigerians. In

2018, BudgIT reached approximately 7.2 million Nigerians through social media, town halls, electronic media, blogs, infographics, print media, SMS and emails, print publications and other media sources. The organisation has also trained journalists and technical members of staff in budget analysis and reporting skills. BudgIT has worked to identify the relationships between key government programs and fiscal indicators including inflation, exchange rate variation, interest rates, and corruption among others.<sup>96</sup>

From the tax perspective, TJNA, with support from and collaboration with other partners such as Christian Aid, Action Aid and others, have continued to advocate for fair tax rules in Africa. Some of the strategies used by TJNA include but are not limited to researching to provide evidence that will serve as the foundation to carry out advocacy. They also organise conferences, carry out campaigns, and capacity building programs targeted at different actors including government officials, civil society actors, students, journalists and parliamentarians.<sup>97</sup> Additionally, TJNA has used the courts to challenge the decision of the government regarding taxation and it has proven to be a successful and effective strategy.<sup>98</sup> Another important thing that has helped CSOs is coalition building, as advocacy requires a tremendous amount of resources. The tax justice movement is a good example of this strategy, particularly with organisations such as the Financial Transparency Coalition (FTC)<sup>99</sup> and the Global Alliance for Tax Justice (GATJ),<sup>100</sup> bringing together organisations that share the same social justice ideology to strengthen the advocacy against illicit financial flows. These approaches among many others are effective in carrying out advocacy because of the strength garnered from the different expertise and influence of the CSOs.

93 United Nations, *Countries reach historic agreement to generate financing for new sustainable development agenda* available at <https://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html> accessed 01/03/2020

94 Julius Court, Enrique Mendizabal, David Osborne and John Young 2006, *Policy Engagement How Civil Society Can be More Effective*, Overseas Development Institute, available at <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/200.pdf> accessed 10/04/2020

95 Ibid

96 See BudgIT Our 2018 Annual Report. <https://impactstories.yourbudget.com/#Page1> Accessed 6/4/2020.

97 For more details see <https://taxjusticeafrica.net/> accessed 10/04/2020

98 See <https://panafrica.oxfam.org/latest/stories/kenya-mauritius-tax-agreement-tjna-wins-case> accessed 10/04/2020

99 For mor details see <https://financialtransparency.org/about/> accessed 10/04/2020

100 For more details see <https://www.globaltaxjustice.org/en/about> accessed 10/04/2020

A close-up, high-angle photograph of a man with short dark hair, wearing a white lab coat over a dark suit jacket and a white collared shirt. He is leaning forward, looking down at a table. On the table, there are several white papers and a yellow object. The background is blurred, showing more papers and a wooden surface. A large red rectangular overlay is positioned in the lower-left quadrant of the image, containing the text 'COUNTRY SECTIONS' in white, bold, uppercase letters.

**COUNTRY  
SECTIONS**



## KENYA

Kenya is an Eastern African nation with an estimated population of 53 million.<sup>101</sup> Agriculture remains its major industry contributing an average of 21.9 percent of gross domestic product (GDP) and employing about 56 percent of its labour force in 2017. Agriculture also accounts for up to 65 percent of merchandise exports in 2017.<sup>102</sup> Other industries include tourism, fishing, mining and financial services. Nonetheless, Kenya has a human development index (HDI) of 0.579 (world: 0.731) ranking 147 out of 189 countries.<sup>103</sup>

### Health profile

The country has a life expectancy at birth of 66.3 years.<sup>104</sup> Kenya's healthy life expectancy in 2015 was 55.6 years. The adult mortality rate is 252 per 1000 people for men and 174 per 1000 for women.<sup>105</sup> In Kenya, about 45 children in 1000 die before reaching the age of five and the infant mortality rate is 33.6 deaths out of 1000 infants.<sup>106</sup>

### Health financing in Kenya

In 2017, Kenya launched the Big Four agenda, an economic blueprint to foster economic development. The agenda features four points namely: food security and nutrition, affordable universal health care, affordable housing, and enhanced manufacturing. In 2018, as part of the country's Third Medium Term Plan (MTP III),<sup>107</sup> the government launched the Universal Health Coverage (UHC) aiming to provide all its citizens with affordable

healthcare by 2022.<sup>108</sup> The success of the programme relies on the improvement of county health facilities and employment of more health workers, but the government halted employment as one of the measures to control public spending. According to government reports, the Government reduced financial barriers with more than 181,315 poor Kenyans accessing health services under the Health Insurance Subsidy Programme (HISP). Also, more than 42,000 elderly persons and persons with disability have been insured under NHIF.<sup>109</sup>

Kenya ranked 46 out of 100 on the Open Budget Index 2017,<sup>110</sup> as it provides the public with limited budget information.<sup>111</sup> It publishes publicly a Pre-Budget Statement, an Executive's Budget Proposal, a Budget In-Year Reports and a Year-End Report Audit Report. There is currently no mid-year review of the budget. A mid-year review of the budget is needed and should be published online with increased information on macroeconomic forecasts, presenting expenditures by functional classification, and providing data on expenditure estimates and actuals for the prior budget year.<sup>112</sup> There is a considerable amount of legislative participation in the area of budget formulation and approval, and the role of independent fiscal institutions (IFI) in the budgeting process cannot be overemphasised. In Kenya, the Parliamentary Budget Office is the primary IFI, performing such roles as informing budget decision making by preparing economic forecasts – or assessing the forecasts prepared by the executive – and by estimating the costs of policy proposals. The country ranked 15 on the assessment of public participation (global average of 12) in the budget and 50 on the assessment on oversight by a supreme legislative body.<sup>113</sup>

101 For more details see <https://www.worldometers.info/world-population/kenya-population/> Accessed 24/3/2020.

102 World Bank, 2019, *Kenya Economic Update: Transforming Agricultural Productivity to Achieve Food Security for All*, available at <https://www.worldbank.org/en/country/kenya/publication/kenya-economic-update-transforming-agricultural-productivity-to-achieve-food-security-for-all> Accessed 24/3/2020.

103 UNDP, *Kenya Country Profile*, available at <http://hdr.undp.org/en/countries/profiles/KEN> Accessed 24/3/2020.

104 Ibid

105 Ibid.

106 Ibid.

107 Key Highlights of Third Medium Term Plan (Mtp iii) 2018 – 2022. Presentation by Saitoti Torome, CBS Principal Secretary State Department for Planning the National Treasury and Planning During the launch of the FY 2020/21 and the medium term budget preparation process - 12th SEPTEMBER 2019. <https://www.treasury.go.ke/component/jdownloads/send/208-2020-2021/1477-key-highlights-of-mtp-iii-priorities.html> Accessed 24/3/2020.

108 For more details see <https://www.theeastafrican.co.ke/news/ea/Only-one-percent-of-kenya-big-four-agenda-targets-met-so-far/4552908-5423128-c1kcgrz/index.html> Accessed 24/3/2020.

109 Republic of Kenya, National Treasury and Planning, *2020 Budget Policy Statement: Harnessing the "Big Four" for Job Creation and Economic Prosperity* Available at <https://www.treasury.go.ke/component/jdownloads/send/212-budget-policy-statement/1510-2020-budget-policy-statement.html> Accessed 25/3/2020.

110 International Budget Partnership (IBP) 2017. "Open Budget Survey 2017" p. 56. <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-report-english.pdf> Accessed 6/4/2020.

111 International Budget Partnership (IBP), 2017, *Open Budget Survey 2017*, available at <https://www.internationalbudget.org/open-budget-survey/results-by-country/country-info/?country=ke> Accessed 6/4/2020.

112 Ibid.

113 Ibid.

The country's health expenditure for the 2019/2020 financial year is 93.3 billion Kenyan shillings<sup>114</sup> (US\$ 879.3 million).<sup>115</sup> Over the years 2013 to 2018, Kenya allocated an average of 7.1 % of its budget to health.<sup>116</sup> However, this figure may have fallen to 3.08 % in the country's 2019/2020 budget.<sup>117</sup> Kenya spent about US\$ 78 per capita<sup>118</sup> on health as per the National Health Accounts of 2015. According to a World Bank estimate, expenditure on health per capita was US\$ 66.12<sup>119</sup> but there are indications that this figure may have also fallen.<sup>120</sup> The US\$ 78 falls short of the World Health Organization (WHO) recommended rate of US\$ 86 per capita,<sup>121</sup> which is the estimated minimum requirement to provide basic health services to a population.<sup>122</sup>

Out-of-pocket expenditure on health per capita by Kenyans was US\$18.35 according to World Bank data<sup>123</sup> representing 27.71 % of the current health expenditure.<sup>124</sup> This is high, considering the level of poverty in the country. In contrast, development assistance for health was 23.9%

of total health spending in Kenya in 2016.<sup>125</sup>

According to the World Health Report 2010, it is “difficult to get close to universal health coverage at less than 4–5% of GDP”.<sup>126</sup> Therefore, Kenya must increase its budgetary allocation to health. The point must be made, however, that an allocation below the Abuja 15 % mark may not necessarily be inadequate considering the peculiar level of health system performance of the country or its relative population and hence the value of health expenditure per capita. Similarly, meeting the threshold does not automatically translate to being adequate as it relies on budget implementation and the nature of spending. If most of the funding is spent on administration and not directly affecting livelihoods, then attaining 15% may not be enough. Ultimately, government revenue must be increased, and leakages shored up as this would have an overall positive impact on the level of budgetary allocation and expenditure in the health sector.

## Taxation

Tax revenue is an important source of revenue for Kenya. The tax-to-GDP ratio in Kenya decreased by 0.1 percentage points from 18.3 % in 2016 to 18.2 % in 2017. In comparison, the average for the 26 African countries in Revenue Statistics in Africa 2019 remained at 17.2 % over the same period,<sup>127</sup> 1 % higher than the African average (using 26 countries) of 17.2 %. Yet, this figure is a reduction by 0.1 percentage points from 18.3 % of GDP in 2016.<sup>128</sup> This suggests that tax revenues may be reduced due to challenges in the tax policy and/or administration.

Kenya has a large informal sector which is largely not captured in the tax net. The informal sector is the largest sector of the economy and employs the most people. The income of many operators in the informal sector is uneven and poorly recorded. For example, unpredictable cash flows caused by global market variations and reliance on

114 Development Initiatives, “Kenyan 2019/20 Budget and the Big Four Agenda: A Pro-poor Analysis”, July 2019. Available at [https://devinit.org/documents/54/Report\\_Kenyas-2019-20-budget-and-the-big-four-agenda-a-pro-poor-analysis.pdf](https://devinit.org/documents/54/Report_Kenyas-2019-20-budget-and-the-big-four-agenda-a-pro-poor-analysis.pdf) Accessed 25/3/2020.

115 Exchange rate at 106.10 Kenyan shillings to 1 US\$ at 25/3/2020.

116 George Githinji, 2018. “How Much of Kenya’s Budget is going towards The Health Sector?” Pesacheck January 14, 2018. <https://pesacheck.org/how-much-of-kenyas-budget-is-going-towards-the-health-sector-5ee2040b1f5> Accessed 16/4/2020.

117 This is 93.3 billion Kenyan shillings as proportion of 3.02 trillion shillings (total budget figure). <https://af.reuters.com/article/investingNews/idAFKCN1P50JR-OZABS> Accessed 25/3/2020.

118 For more details see [https://www.google.com/url?sa=t&source=web&rct=j&url=http://www.healthpolicyplus.com/pubs/16339-16616\\_KenyaNHAmainreport.pdf&ved=2a-hUKEwiPzoO-9rXoAhXYRBUIHRAHBUDUQFjABegQIBBAC&usq=AOvVaw-26GC5zksBb9NFnUwSfmlt&cshid=1585149697277](https://www.google.com/url?sa=t&source=web&rct=j&url=http://www.healthpolicyplus.com/pubs/16339-16616_KenyaNHAmainreport.pdf&ved=2a-hUKEwiPzoO-9rXoAhXYRBUIHRAHBUDUQFjABegQIBBAC&usq=AOvVaw-26GC5zksBb9NFnUwSfmlt&cshid=1585149697277) Accessed 25/3/2020.

119 World Bank, Current Health Expenditure Per Capita, available at <https://data.worldbank.org/indicator/SH.XPD.CHEX.PC.CD?locations=KE> Accessed 24/3/2020.

120 US\$ 879.3 million divided by an estimated Kenyan population of 53 million is US\$16.59.

121 Kenyan Institute of Public Policy Research and Analysis, “Health Budget Brief” Policy Brief No. 65/2018-2019. Available at <https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.unicef.org/esaro/UNICEF-Kenya-2018-Health-Budget-Brief.pdf&ved=2ahUKEwix-nY2-87XoAhX1rnEKHWXHLkQFjAKegQIBBAC&usq=AOvVaw38muSAYN-50TCVTD259ASyh&cshid=1585150245110> Accessed 24/3/2020.

122 McIntyre, D.M., F, 2014, *Shared Responsibilities for Health: A Coherent Global Framework for Health Financing*, in *Final Report of the Centre on Global Health Security Working Group on Health Financing*, Chatham House: London, UK.

123 World Bank, 2017, *Out of Pocket Expenditure Per Capita*, available at <https://data.worldbank.org/indicator/SH.XPD.OOPC.PC.CD?locations=KE> Accessed 24/3/2020.

124 World Bank, 2017, *Out of Pocket Expenditure (% of current health expenditure) Kenya* <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS?locations=KE> Accessed 24/3/2020.

125 Global Burden of Disease Health Financing Collaborator Network, “Past, present, and future of global health financing: a review of development assistance, government, out-of-pocket, and other private spending on health for 195 countries, 1995–2050” <https://www.thelancet.com/action/showPdf?pii=S0140-6736%2819%2930841-4> Accessed 26/3/2020.

126 Jowett M, Brunal MP, Flores G, Cylus J. Spending targets for health: no magic number. Geneva: World Health Organization; 2016 (WHO/HIS/HGF/HFWorkingPaper/16.1; Health Financing Working Paper No. 1); p. 4. <http://apps.who.int/iris/bitstream/10665/250048/1/WHO-HIS-HGFHF-WorkingPaper-16.1-eng.pdf> Accessed 25/3/2020.

127 OECD, 2019. “Revenue Statistics in Africa”. p. 3. Available at <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf> Accessed 24/3/2020.

128 OECD, 2019. “Revenue Statistics in Africa”. p. 3. Available at <https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf> Accessed 24/3/2020.

rain-fed agriculture<sup>129</sup> have made it difficult to assess or audit the profits and revenue streams of these operators for tax. A parliamentary report notes that bringing the informal economy into the tax net could increase the tax base by over KShs 79 billion (US\$ 873 million).<sup>130</sup> The Kenyan Finance Act 2019 has attempted to address this problem through the reintroduction of the turnover tax at a rate of 3 % on gross receipts by resident persons with a turnover of less than 5 million Kenyan shillings and a further presumptive tax of 15 percent of the amount payable for a business permit or trading license issued by a county government.<sup>131</sup>

Tax avoidance remains a major source of leakages of tax revenue for the Kenyan government. Through transfer pricing and profit shifting schemes, businesses are moving taxable profits to other low tax jurisdictions such as Mauritius. For example, Civicon Limited, a major company in the construction industry, which Mauritius-registered Civicon Africa Group Limited owns 99.86 %, has over the last few years won contracts of over 20 billion Kenyan shillings in Kenya and other East African countries.<sup>132</sup>

In 2014, Tax Justice Network Africa (TJNA) challenged Kenya's proposed treaty with Mauritius in court. The treaty contained some provisions that were unfairly in favour of the resident state (Mauritius) such as restricting other incomes comprising income from services, management fees, insurance commission so that they are taxed at 0 percent, capital gains from selling shares not specifically addressed and so was to charge at 0 percent. The TJNA challenged the constitutionality of the process of signing the treaty, particularly the failure to lay a legal notice before the Parliament for scrutiny. The TJNA also cited the treaty's potential threat of reducing government revenue, which will undermine sustainable development. The court decided in favour of the TJNA and declared the treaty unconstitutional.<sup>133</sup> A new treaty was subsequently signed in 2019 removing most of the disputed terms of the previous treaty, however, it is unclear if the new treaty

129 Kago Bernard Muchiri, "An Analysis of the Effect of the Growth of the Informal Sector on Tax Revenue Performance in Kenya" p. 13. Research Paper submitted to the School of Economics in Partial Fulfilment of the Requirements for the Award of the Degree of Master of Arts in Economics of the University of Nairobi, October 2014. <https://pdfs.semanticscholar.org/e393/3540870f9329aecaaf6970f7012a63b9f8f0.pdf> Accessed 25/3/2020.

130 Parliamentary Budget Office, Unlocking the Revenue Potential in Kenya, Policy Working Paper Series, No. 2/2010, p.vi

131 KPMG, "The Finance Act, 2019: A KPMG Analysis" November 2019. Available at [https://assets.kpmg/content/dam/kpmg/ke/pdf/tax/2019/KPMG\\_Finance\\_Act2019\\_Analysis.pdf](https://assets.kpmg/content/dam/kpmg/ke/pdf/tax/2019/KPMG_Finance_Act2019_Analysis.pdf) Accessed 25/3/2020.

132

133 *Tax Justice Network Africa (TJNA) v. Cabinet Secretary for the National Treasury, The Kenya Revenue Authority and The Attorney General* (Petition No 494 of 2014). See a copy of the judgement at <https://www.lexology.com/library/detail.aspx?g=68f63def-5e3a-4c7f-9def-b1322a6c0ba3> Accessed 6/4/2020.

made any significant changes<sup>134</sup>

Kenya offers a broad range of incentives including export processing zones (EPZs), accelerated capital investment deductions, exemptions on withholding tax, and the zero-rating of VAT payable for goods and services procured by public bodies and privileged institutions. Currently, there are over 40 EPZs in Kenya and they enjoy Fiscal incentives such as a 10-year corporate holiday, followed by 25 % corporate tax rate (as compared to the standard 30 % rate), 10-year withholding tax holiday on remittances to non-residents, 100 % investment deduction on new investment in EPZ buildings and machinery, applicable over 20 years. Additionally, they enjoy perpetual exemption from payment of stamp duty on legal instruments and perpetual exemption from VAT and customs import duty on inputs – raw materials.<sup>135</sup>

The losses from tax incentives and exemptions for Kenya are significant. Kenya loses about US\$ 1.1 billion a year from tax incentives and exemptions.<sup>136</sup> According to a parliamentary report, the country's tax gap, the difference between actual and potential revenue in taxes, was estimated to be US\$3.05 billion in 2009/2010. This is almost two-thirds of the total collected tax revenues of US\$ 5.16 billion.<sup>137</sup> By comparison, Kenya spent US\$1.62 billion on health in 2009/2010 – <sup>138</sup> only roughly half of the tax gap.

**The losses from tax incentives and exemptions for Kenya are significant. Kenya loses about US\$ 1.1 billion a year from tax incentives and exemptions.**

In March 2011, the IMF Resident Representative in Kenya, Ragnar Gudmundsson, said that Kenya was losing 40 billion Kenyan shillings (US\$ 443 million) a year in tax exemptions.<sup>139</sup> In 2010/11, the government's entire

134 <https://www.lexology.com/library/detail.aspx?g=68f63def-5e3a-4c7f-9def-b1322a6c0ba3> Accessed 6/4/2020.

135 PriceWaterHouseCoopers, *Worldwide Tax Summaries, Kenya* available at <https://taxsummaries.pwc.com/kenya/corporate/tax-credits-and-incentives> accessed 20/03/2020

136 Tax Justice Network & ActionAid International. 2012, "Tax competition in East Africa: A race to the bottom? Tax incentives and revenue losses in Kenya" p. 1. [https://www.taxjustice.net/cms/upload/pdf/kenya\\_report\\_full.pdf](https://www.taxjustice.net/cms/upload/pdf/kenya_report_full.pdf) Accessed 25/3/2020.

137 Parliamentary Budget Office, Unlocking the Revenue Potential in Kenya, Policy Working Paper Series, No. 2/2010, p.vi

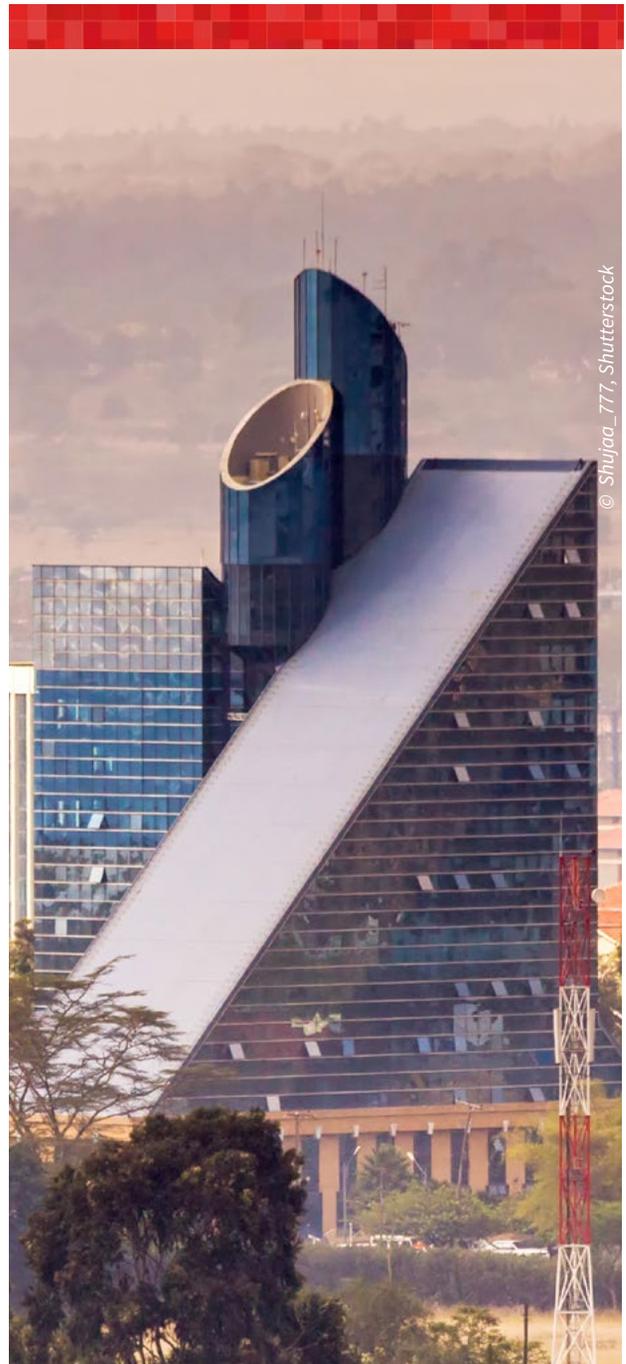
138 Kenya National Health Accounts 2009/10. p. 11. [https://www.who.int/pmnch/media/events/2013/kenya\\_nha.pdf](https://www.who.int/pmnch/media/events/2013/kenya_nha.pdf) Accessed 26/3/2020.

139 Geoffrey Irungu, 'Tax exemptions cost economy Sh40 billion, says IMF', Business Daily, 18 March 2011.

health budget was 41.5 billion Kenyan shillings.<sup>140</sup> Yet, the government paid more than twice this amount in providing tax incentives. These incentives are revenue forgone by Kenya without necessarily achieving the desired objectives such as an increase in greenfield investment. It is also unclear if Kenya conducts a cost-benefit analysis before it grants these incentives.

In 2017, the Nairobi International Financial Centre Act, No. 25 of 2017, entered into force. The Act provides the legal framework for the development of the Nairobi International Financial Centre (NIFC), to provide a “well-functioning financial system to accelerate economic growth by encouraging foreign direct investment, safeguarding the economy from external shocks, and establishing Kenya as a leading financial centre in Eastern and Southern Africa”.<sup>141</sup>

The Nairobi International Financial Centre Authority (established by the Act) is yet to publish its strategy and framework or even widely consult the public. This is despite the threat that the tax concessions and banking secrecy may facilitate unhealthy tax competition, aggressive tax avoidance, and illicit financial flows.<sup>142</sup> The TJNA has advised against the operation of the NIFC in its present form particularly because of the challenges in its constitution, the operational framework and potential to significantly undermine tax revenue of the country.<sup>143</sup>



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140 GTZ Kenya, ‘Analysis of the 2010/11 Kenyan health budget estimates’, 8 July 2010, <http://www.gtzkenyahealth.com/blog3/?p=4929> Accessed 26/3/2020.

141 Vision 2030 Objectives, <http://www.vision2030.go.ke/projects/?pj=104> Accessed 6/4/2020.

142 Tax Justice Network 2020, “Narrative Report on Kenya” *Financial Secrecy Index 2020* p.2. <https://fsi.taxjustice.net/PDF/Kenya.pdf> Accessed 6/4/2020.

143 Robert Mwanjumba, Jared Maranga and Matthew Magare, “Nairobi International Financial Centre or Nairobi Tax Haven? A review of the Nairobi International Financial Centre Bill” p. 20. <https://taxjusticeafrica.net/wp-content/uploads/2019/03/NIFC-Report-20172.pdf> Accessed 6/4/2020.

## MALAWI

Malawi is a country with a population of 17.5 million people according to a 2018 census.<sup>144</sup> The landlocked country is one of the least developed nations in the world. The country has a predominantly rural population and an economy that largely depends on agriculture. In the past, the economy has also been highly reliant on inflows of economic assistance from the IMF, the World Bank, and individual donor nations. However, donors discontinued direct budget support from 2013 to 2016 due to corruption and fiscal recklessness,<sup>145</sup> but the World Bank resumed budget support in May 2017.<sup>146</sup> About 80 % of the population is employed in the agricultural sector<sup>147</sup> which contributes almost a third of GDP.<sup>148</sup> Hence the country's economy is vulnerable to external market shocks and climatic changes. For example, in 2016, Malawi was hit by a drought which led to a decline in economic growth, and in 2017, it reported an outbreak of armyworms.<sup>149</sup>

Malawi's agricultural exports consist majorly of tobacco, sugar cane, cotton and tea. Pressure from the international community regarding the health risks and danger of tobacco, is causing a fall in tobacco exports which accounts for about 55 % of the country's agricultural exports.<sup>150</sup> As of 2016, 51.5 % of Malawians lived in poverty (living on less than US\$1.90 daily<sup>151</sup>), while 20.1 % lived in extreme poverty.<sup>152</sup>

### Health profile

Malawi scores 0.485 on the human development index

144 <https://www.worldbank.org/en/country/malawi/overview> Accessed 29/3/2020.

145BBC News, 27 January 2014. "‘Cashgate’ - Malawi's murky tale of shooting and corruption" <https://www.bbc.com/news/world-africa-25912652> Accessed 29/3/2020.

146 CIA World Factbook: Malawi <https://www.cia.gov/library/publications/the-world-factbook/geos/mi.html> Accessed 29/3/2020.

147 Ibid.

148 Ibid.

149 <http://hdr.undp.org/en/countries/profiles/MWI> Accessed 29/3/2020.

150 CIA World Factbook: Malawi <https://www.cia.gov/library/publications/the-world-factbook/geos/mi.html> Accessed 29/3/2020.

151 This is the international poverty line as at 2015. See <https://www.worldbank.org/en/topic/poverty/brief/global-poverty-line-faq#:~:targetText=As%20of%20October%202015%2C%20the,at%20%241.90%20using%202011%20prices> Accessed 29/3/2020.

152 <https://www.worldbank.org/en/country/malawi/overview> Accessed 29/3/2020.

(HDI) ranking 172 out of 189 countries.<sup>153</sup> Life expectancy at birth in Malawi is 63.8 years. The adult mortality rate is 331 per 1000 people for men and 218 per 1000 people for women.<sup>154</sup> In Malawi, 55 out of 1000 Malawian children die before reaching the age of five and the infant mortality rate is 38.5 deaths out of 1000 live births.<sup>155</sup> The World Health Organisation (WHO) ranks Malawi as one of the countries facing an acute shortage of health workers. The doctor to patient ratio is 1:1666 and the nurse-to-patient ratio is 1:2941.<sup>156</sup>

### Health financing

In 2019, Malawi had a GDP per capita of US\$389<sup>157</sup>. Budgetary allocation to the health sector in the 2018/2019 budget was 9.75 % of the total budget.<sup>158</sup> Out-of-pocket expenditure as a percentage of health expenditure was 11.39 % in 2016 and out of pocket expenditure as per capita was US\$ 3.37.<sup>159</sup> The trend in Malawi's budgetary allocation to health is that despite health budget increasing in nominal terms from 2012 to 2018, the estimated health expenditures have stagnated in real terms – from US\$199.5 million in 2012-2013 to US\$202.3 million in 2017-2018.<sup>160</sup>

Health and Population is one of the five priority areas of the Government of Malawi as outlined in the Third Malawi Growth and Development Strategy (MGDS III)<sup>161</sup> the

153 <http://hdr.undp.org/en/countries/profiles/MWI> Accessed 29/3/2020.

154 <http://hdr.undp.org/en/countries/profiles/MWI> Accessed 29/3/2020.

155 Ibid.

156 UNICEF, (2019). "2018/19 Health Budget Brief: Towards Universal Health Coverage (UHC): Achieving SDG 3 in Malawi" <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-04/UNICEF-Malawi-2018-Health-Budget-Brief.pdf> Accessed 30/3/2020

157 World Bank *Data*, available at <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=MW> 29/3/2020.

158 UNICEF, (2019). "2018/19 Health Budget Brief: Towards Universal Health Coverage (UHC): Achieving SDG 3 in Malawi" p. 4. <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-04/UNICEF-Malawi-2018-Health-Budget-Brief.pdf> Accessed 16/4/2020.

159 World Bank *Data*, available at <https://data.worldbank.org/indicator/SH.XPD.OOPC.PC.CD?locations=MW> Accessed 29/3/2020.

160 UNICEF 2018, *Fiscal Space Analysis*, available at <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-05/UNICEF-Malawi-2018-Fiscal-Space-Analysis.pdf> Accessed 29/3/2020.

161 UNICEF, (2019). "2018/19 Health Budget Brief: Towards Universal Health Coverage (UHC): Achieving SDG 3 in Malawi" <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-04/UNICEF-Malawi-2018-Health-Budget-Brief.pdf> Accessed 30/2/2020.

Government has expressed its commitment to improving the access, equity and quality of primary, secondary and tertiary health services. The Government has also developed several health sector policies and plans to guide its interventions and to aid resource mobilization and allocation in the health sector. In the year 2017, Malawi launched several plans, and these include, the second Health Sector Strategic Plan (HSSP II), the Essential Health Package (EHP) (2017- 2022), the Sexual and Reproductive Health Policy (2017-2022). Additionally, the government also launched the National Community Health Strategy (2017-2022) and the Multi-Year Plan for the Expanded Program on Immunization (2017- 2021). In 2018, the Health Policy was finalized, and the mandate of the Ministry of Health was expanded to include population.<sup>162</sup>

Malawi provides only minimal budget information to the public. The country scored only 26 out of 100 on the Open Budget Survey of 2017.<sup>163</sup> Furthermore, it scored 15 out of 100 on the assessment of public participation. Public participation sessions in Malawi are truly open, and there is direct engagement between government and any interested members of the public.<sup>164</sup> In the assessment of budget oversight by the legislature and the supreme audit institution, Malawi scored 55 out of 100. According to the IBP, Malawi needs to do a few things to improve budget transparency. Malawi should publish a Pre-Budget Statement, an Enacted Budget, and a Year-End Report online. The country must also ensure that the Executive Budget Proposal, In-Year Reports, the Audit Reports and any supporting documents are consistently published online.<sup>165</sup>

The budgetary allocation to the health sector in Malawi for the 2018/2019 financial year was around US\$196 million – about 38 % below the HSSP II funding requirement of US\$ 521 million<sup>166</sup> Malawi's per capita public health allocation was US\$10.4 in 2018/19, just about a third of the country's HSSP II annual per capita cost requirement which is estimated at US\$30.<sup>167</sup> The health spending per capita is also 8.2 times lower than the WHO recommended minimum necessary per capita investment to provide

basic health services of US\$86.<sup>168</sup>

According to the World Bank, out-of-pocket expenses as a percentage of private health spending has averaged 9% of private health spending in Malawi.<sup>169</sup> This figure is lower than the Southern Africa Development Community (SADC) average of 21 %. The implication of this is that the average Malawian can hardly increase their contribution to health financing through out-of-pocket expenditure. An obvious reason for this is that more than half of Malawians live below the poverty line. Hence, any increase in out-of-pocket expenditure will amount to impoverishing payments for average Malawians.

## Taxation

The country had a tax to GDP ratio of 17 % as of 2018.<sup>170</sup> Despite this figure being higher than those of several neighbouring countries, a weak system of tax administration has seen tax revenue fall.<sup>171</sup> Malawi's need for funding in many critical sectors of the economy is high, yet, the revenue sources are limited<sup>172</sup>

Revenue mobilisation has been increasing in recent years; however, important sectors of the economy are still donor funded. Although about 87 % of health resources reported in the national budgets come from domestic sources, about 75 % of the 2018 development part of the health budget came from donors.<sup>173</sup> With its relatively impressive tax to GDP ratio, there is a significant potential to improve government spending on health through taxation.

As with many sub-Saharan African countries, tax compliance is low in Malawi. It has been observed that people are reluctant to pay taxes until they see material benefits from their taxes, contributing to a vicious cycle

168 "...Every Low Income Country (LIC) Government should ensure public health expenditure per capita of at least US\$86 wherever possible" (Chatham House Centre on Global Health Security Working Group on Health Financing, 2014) [https://www.chathamhouse.org/sites/default/files/field/field\\_document/20140521HealthFinancing.pdf](https://www.chathamhouse.org/sites/default/files/field/field_document/20140521HealthFinancing.pdf) Accessed 30/2/2020.

169

170 World Bank, *Data* available at <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=MW&view=chart> Accessed 29/3/2020.

171 Health Policy Project, May 2016. "Macro-Fiscal Profile: Malawi" [https://www.healthpolicyproject.com/pubs/7887/Malawi\\_MFP.pdf](https://www.healthpolicyproject.com/pubs/7887/Malawi_MFP.pdf) Accessed 30/3/2020.

172 UNICEF, (2018). "Fiscal Space for Children: An Analysis of Options in Malawi." p. 28. <https://www.unicef.org/esa/sites/unicef.org/esa/files/2019-05/UNICEF-Malawi-2018-Fiscal-Space-Analysis.pdf> Accessed 30/2/2020.

173 Health sector development expenditures are entirely centralized and managed by the Ministry of Health, with virtually no allocations going through District Councils for health-related development expenditures. In FY2018/19, the Ministry of Health was allocated MK25 billion for development programs, of this amount, 75 per cent (MK19 billion) is expected to come from donors (Document No. 4: Detailed Estimates for FY2018/19, pp. 461).

162 Ibid

163 International Budget Partnership 2017, Open Budget Survey 2017 <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-report-english.pdf> accessed 20/2/2020

164 Ibid

165 Ibid

166 The five-year cost of the HSSP II is estimated at US\$2,613 million with annual costs estimated to increase from \$504 million in 2017/18 to \$540 million in 2021/22. Per capita health spending is estimated to remain constant at about US\$30 over the five-year period (2017-2022) (HSSP II Final Document, pp. 60). See Ibid at p. 5.

167 Ibid.

of non-payment, and poor government service delivery. Evidence from research suggests that, on average, only 35% of vendors in the markets pay their fees consistently.<sup>174</sup>

**It has been observed that people are reluctant to pay taxes until they see material benefits from their taxes, contributing to a vicious cycle of non-payment, and poor government service delivery.**

Malawi suffers significantly from illicit financial flows. The country loses on average US\$650 million per year in illicit outflows, according to the Washington DC-based Global Financial Integrity (GFI).<sup>175</sup> One way Malawi can reduce these illicit financial flows is through the exchange of relevant tax information with other jurisdictions, however, the country is yet to sign Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA) which aims to facilitate the exchange of financial information among jurisdictions.<sup>176</sup>

Malawi also offers a broad range of tax incentives, they include tax breaks and concessions, industrial rebates, special exemptions and deductions. Tax-based incentives are enshrined in the main tax legislation which includes the Taxation Act, the Customs and Excise Act, and the Export Incentives Act, and, the Export Processing Zones (EPZ) Act. Some of the incentives include a 10-year tax holiday and a reduced corporate tax for so-called priority industries.<sup>177</sup> The tax holiday has been criticised as being an open door to transfer pricing and tax avoidance through the restructuring of businesses at the holiday expiry date to gain an advantage of a new holiday period.<sup>178</sup>

Other tax incentives offered by Malawi include investment allowances for the manufacturing industry to deduct expenditure, capital allowances for new farm improvements; the Industrial Rebate Scheme (IRS), which exempts manufacturers from paying customs duties and excises on selected materials that they import to be used in the production of eligible goods, and export processing zones. Reports show that the incentives in Malawi do not necessarily result in increased investment or benefit. According to the Malawian Revenue Authority, losses from foregone customs duty through the IRS were estimated to

be MK 12.7 billion (US\$29.4 million<sup>179</sup>) in 2012/13.<sup>180</sup>

Despite these losses, the government of Malawi in 2019 proposed multiproduct Special Economic Zones for oilseeds, sugar cane, beverage manufacturing, and agro-processing to strengthen value addition through a Special Economic Zone (SEZ) Bill to regulate exports through a national export strategy. The bill aims to prioritize exports of tea, legumes, oilseeds, and minerals.<sup>181</sup> For Malawi to sustainably fund healthcare through taxation, it must increase its capacity for revenue generation and mobilisation by eliminating unproductive tax measures and incentives, and by expanding the tax base.

174 Ibid.

175 Sam Lucas, (2016). "Don't Take a Page out of Their Book: How Illicit Financial Flows Reduce Funds for Youth Education in Malawi" *Global Financial Integrity* March 22, 2016. <https://gfintegrity.org/dont-take-a-page-out-of-their-book-how-illicit-financial-flows-reduce-funds-for-youth-education-in-malawi/> 30/3/2020.

176 <http://www.oecd.org/tax/automatic-exchange/about-automatic-exchange/CbC-MCAA-Signatories.pdf> Accessed 30/3/2020.

177Op cit. p. 75.

178 Ibid.

179 Using the exchange rate of 431 Malawian Kwacha to 1 USD at December 30, 2013.

180 Ibid.

181 AFDB (2019). "Malawi Economic Outlook" <https://www.afdb.org/en/countries/southern-africa/malawi/malawi-economic-outlook> Accessed 30/3/2020.

## BURUNDI

Burundi is a landlocked East African nation with a population of about 11 million people.<sup>182</sup> The country is one of the most densely populated countries in Africa with a population density of 470 people per square kilometre.<sup>183</sup> The country is predominantly poor and is regarded as a highly fragile state. The country is also one of the least developed countries in the world and one of the poorest. It has a GDP per capita of US\$270.1<sup>184</sup> and ranks 185 out of 189 countries with a score of 0.423 on the human development index.<sup>185</sup> Burundi is heavily reliant on agriculture which employs about 80 % of its population, and which contributed 40.7 % to its GDP in 2018<sup>186</sup>. Coffee is the country's main export, accounting for more than 60 % of export revenues.<sup>187</sup> Due to the country's reliance on Agriculture, its economy is susceptible to volatility in agricultural production and government expenditures as well as coffee prices and production in international markets.<sup>188</sup>

### Health profile

Life expectancy in Burundi is 61.2 years,<sup>189</sup> but as of 2018, healthy life expectancy was 52.2 years.<sup>190</sup> This means that about 9 years of the life of Burundians are not lived in healthy conditions. While maternal mortality rate

is reported to be 548 deaths per 100,000 live births.<sup>191</sup> There are 42.5 deaths per 1000 live births and about 61 out of 1000 children die before attaining the age of five.<sup>192</sup> According to reports, 6 out of 10 children in Burundi were stunted in 2017<sup>193</sup> and 194.5 people out of 1000 people are at risk of malaria.<sup>194</sup> Furthermore, about 1 % of adult aged 15 to 49 years live with HIV in the country.<sup>195</sup>

### Health financing

Budgetary allocation to the ministry of health as a percentage of the total spending in Burundi was 12 % according to a 2017 UNICEF estimate.<sup>196</sup> This allocation to the ministry of health amounts to the public spending on health which is about 82 % of the total health spending according to a WHO 2019 estimate.<sup>197</sup> Out of pocket expenses in 2017 was estimated at 30.51 % of current health expenditure<sup>198</sup> and out of pocket expenditure per capita was US\$29.13.<sup>199</sup> Burundi relies on official development assistance (ODA) to provide an important fiscal buffer against major external shocks. Net ODA for Burundi in 2018 according to OECD data was US\$449.8 million.<sup>200</sup> Comparably, Burundi's total national budget

182 World Bank (2018). "Republic of Burundi Addressing Fragility and Demographic Challenges to Reduce Poverty and Boost Sustainable Growth: Systematic Country Diagnostic" p. vii. <http://documents.worldbank.org/curated/en/655671529960055982/pdf/Burundi-SCD-final-06212018.pdf> Accessed 30/3/2020.

183 World Bank, *Country Overview*, available at <https://www.worldbank.org/en/country/burundi/overview> Accessed 30/3/2020.

184 <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=BI> Accessed 30/3/2020.

185 <http://hdr.undp.org/en/countries/profiles/BDI> Accessed 30/3/2020.

186 <https://www.afdb.org/en/countries/east-africa/burundi/burundi-economic-outlook> Accessed 30/3/2020.

187 <http://www.fao.org/3/a-i4909e.pdf> Accessed 30/3/2020.

188 AFDB (2009). "A shock analysis of Burundi's economy: The financial crisis and other shocks" September 2009. p. 3. <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/A%20shock%20analysis%20of%20Burundi%27s%20economy%20v1.3.pdf> Accessed 30/2/2020.

189 Ibid.

190 World Bank. 2016. Universal Health Coverage (UHC) in Africa: A Framework for Action: Main report (English). Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/735071472096342073/Main-report> Accessed 15/3/2020.

191 World Bank, *Data*, available at [https://data.worldbank.org/indicator/SH.STA.MMRT?locations=BI&name\\_desc=false&year\\_high\\_desc=true](https://data.worldbank.org/indicator/SH.STA.MMRT?locations=BI&name_desc=false&year_high_desc=true) accessed 16/03/2020

192 Ibid.

193 African Development Bank, *Burundi Economic Outlook*, available at <https://www.afdb.org/en/countries/east-africa/burundi/burundi-economic-outlook> Accessed 30/3/2020.

194 UNDP, *Country Profile* <http://hdr.undp.org/en/countries/profiles/BDI> Accessed 30/3/2020.

195 UNAIDS, *Burundi*, available at <https://www.unaids.org/en/regions-countries/countries/burundi> Accessed 30/3/2020.

196 UNICEF, 2017. "Budget Brief: The 2017 Health Sector Budget Burundi" p. 2. [https://www.unicef.org/esaro/UNICEF\\_Burundi\\_-\\_2017\\_-\\_Health\\_Budget\\_Brief.pdf](https://www.unicef.org/esaro/UNICEF_Burundi_-_2017_-_Health_Budget_Brief.pdf) Accessed 16/4/2020.

197 WHO, 2019. "Global Spending on Health: A World in Transition" Geneva: World Health Organization; 2019. (WHO/HIS/HGF/HFWorking-Paper/19.4). Licence: CC BY-NC-SA 3.0 IGO. p. 49. [https://www.who.int/health\\_financing/documents/health-expenditure-report-2019.pdf?ua=1](https://www.who.int/health_financing/documents/health-expenditure-report-2019.pdf?ua=1) Accessed 16/4/2020.

198 UNICEF, 2017. "Budget Brief: The 2017 Health Sector Budget Burundi" p. 2. [https://www.unicef.org/esaro/UNICEF\\_Burundi\\_-\\_2017\\_-\\_Health\\_Budget\\_Brief.pdf](https://www.unicef.org/esaro/UNICEF_Burundi_-_2017_-_Health_Budget_Brief.pdf) Accessed 16/4/2020.

199 Ibid.

200 For more details, see [https://public.tableau.com/views/OECD-DACAidataglanancebyrecipient\\_new/Recipients?:embed=y&display\\_count=yes&showTabs=y&toolbar=no&showVizHome=no](https://public.tableau.com/views/OECD-DACAidataglanancebyrecipient_new/Recipients?:embed=y&display_count=yes&showTabs=y&toolbar=no&showVizHome=no) Accessed 30/3/2020.

was US\$795 million.<sup>201</sup> However, since the 2015 political unrest, ODA has been slow to return. Unfortunately, it is probable that continued reduction in the ODA will lead to a tightening of the fiscal space and a reallocation of funds away from health.

In 2006, the government of Burundi made some healthcare services free in all public and accredited facilities and these include healthcare for children under five years, obstetric deliveries, and pregnancy-related care. The Ministry of Finance allocated a dedicated budget to the Ministry of Health to compensate health facilities for the shortfall in revenues from user fees. However, the health facilities were not adequate to satisfy the surge in demand for health services<sup>202</sup> pointing to the weakness in financing.

## Taxation

Companies operating in Burundi benefit from numerous exemptions, such as the reduced rates applicable to companies that are operating in the Free Trade Zone and employ more than 100 permanent Burundian employees. Others include profit tax discounts of between 2-5%.<sup>203</sup> In 2014, as part of the efforts to stimulate the economy following a decline in donor funding, the country introduced short term fiscal changes such as the suppression in 2014 of a 4% advance for imported products and abolition of a 1% minimum tax on enterprises. The effect was that Burundi's fiscal deficit increased from 1.2% of GDP in 2014 to 5.7% of GDP in 2015.<sup>204</sup> This reflects that short-term tax incentives may not bring the desired fiscal revenue mobilisation which the country seeks.

According to the Report of the AU High-Level Panel on Illicit Financial Flows from Africa in 2011, Burundi loses an estimated 6% of its GDP to illicit financial flows. Based on the Report's estimation, an elimination of Burundi's illicit financial flow (and injection of potential revenue) would reduce under 5 mortality by 3.14%.<sup>205</sup>

Achieving universal health coverage will likely be a challenge for a low-income country like Burundi with dwindling external aid. However, improving tax

administration and collection will reduce leakages in the mobilisation of revenue to fund health.



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201 Reuters, June 26, 2018. "Burundi parliament passes 2018/19 government budget" <https://af.reuters.com/article/investingNews/idAFKBN1J-M1YW-OZABS> Accessed 31/3/2020.

202 «Improving Health System Efficiency: Burundi Performance based financing of priority health services»

203 PKF International, *Burundi Tax Guide*, available at <https://www.pkf.com/media/10028397/burundi-tax-guide-2016-17.pdf> Accessed 31/3/2020.

204 UNICEF (2017). "Fiscal Space Profiles of Countries in Eastern and Southern Africa Case Study – Burundi Fiscal Space Analysis" May 2017. P. 14 <https://www.unicef.org/esa/sites/unicef.org/esa/files/2018-09/UNICEF-Burundi-2017-Fiscal-Space-Analysis.pdf> Accessed 31/3/2020.

205 "Illicit Financial Flows (IFF): Report of the High Level Panel on Illicit Financial Flows from Africa" [https://www.unodc.org/documents/NGO/AU\\_ECA\\_Illicit\\_Financial\\_Flows\\_report\\_EN.pdf](https://www.unodc.org/documents/NGO/AU_ECA_Illicit_Financial_Flows_report_EN.pdf) Accessed 31/3/2020.

## NIGERIA

Nigeria is the most populous country in Africa, home to about 200 million people.<sup>206</sup> The West African nation has a vibrant oil industry which accounts for about 85 % of trade exports.<sup>207</sup> However, the oil sector contributes less than 10 % of the country's GDP according to the National Bureau of Statistics.<sup>208</sup> The major sectors contributing to Nigeria's GDP are services (52 %), agriculture (21.2 %) and industry (25.75 %).<sup>209</sup> Nigeria is the largest producer of oil in Africa and the 13<sup>th</sup> largest producer of oil in the world.<sup>210</sup> Nigeria's economy is vulnerable to oil price volatility and negative production shocks. Between 2000 and 2014, the country's GDP grew at an average rate of 7 % per year. However, following fluctuations in global oil prices, GDP growth rate dropped to 2.7 % in 2015. In 2016 during its first recession in 25 years, the economy contracted by 1.6 % and economic growth remains slowed to 1.9 % in 2018.<sup>211</sup>

### Health profile

Nigeria scores 0.534 (world: 0.731) on the human development index (HDI) ranking 153 out of 189 countries in 2019<sup>212</sup> and has a life expectancy of 54.3 years.<sup>213</sup> The adult mortality rate in the country is 368 deaths per 1000 people for men and 328 deaths per 1000 people for women.<sup>214</sup> Nigeria has an infant mortality rate of 64.6 deaths per 1000 live births<sup>215</sup> and 100 out of 1000 children

206 For more details see <https://www.worldometers.info/world-population/nigeria-population/> Accessed 31/3/2020.

207 For more details see <https://www.pressreader.com/nigeria/business-day-nigeria/20190917/281878710080064> Accessed 31/3/2020.

208 The oil sector contributed 9.14 per cent to total real GDP in the first quarter of 2019. <https://nigerianstat.gov.ng/download/937> Accessed 30/3/2020.

209 Statistical 2018. "Nigeria: Distribution of gross domestic product (GDP) across economic sectors from 2008 to 2018" <https://www.statista.com/statistics/382311/nigeria-gdp-distribution-across-economic-sectors/> Accessed 31/3/2020.

210 For more details see [Production of Crude Oil including Lease Condensate 2019](#)" (CVS download). U.S. Energy Information Administration. Accessed 31/3/2020.

211 World Bank, *Country Overview Nigeria*, available at <https://www.worldbank.org/en/country/nigeria/overview> Accessed 30/3/2020.

212 UNDP, *Country Profile, Nigeria* <http://hdr.undp.org/en/countries/profiles/NGA> Accessed 31/3/2020.

213 Ibid.

214 Ibid.

215 Ibid.

in Nigeria die before reaching the age of five.<sup>216</sup> As of 2015, there were only 4 doctors in Nigeria for every 10,000 people.<sup>217</sup>

### Health financing

Budgetary allocation to health in 2019 was N367 billion (US\$1 billion) representing just 4.1 % of the entire budget figure. This is despite the AU's Abuja declaration recommendation that African states should allocate at least 15 % of their annual budgets to improving the health sector.<sup>218</sup> Out of pocket expenditure by individuals was 75.21 % of current health expenditure according to a 2016 World Bank estimate<sup>219</sup> and out of pocket expenditure per capita stood at US\$59.67.<sup>220</sup>

The level of public participation and transparency in budgets in Nigeria is low. Nigeria scored 17 out of 100 on the Open Budget Survey 2017.<sup>221</sup> Nigeria only provides scant budget information to the public. The country either does not publish Pre-Budget Statements, Citizens Budget and In-Year Budgets, or publishes them too late.<sup>222</sup>

In the assessment of public participation, Nigeria scored 13 (global average of 12) out of 100.<sup>223</sup> There are very minimal avenues for the public to engage in the budget process. In the assessment of oversight by the Legislature and Supreme Audit Institution, Nigeria scored 56 out of 100. This reflects that Nigeria's legislature provides only limited oversight over the budget cycle during the planning and the implementation stages of the budget. The recommendation of the International Budget Partnership (IBP) is that to improve public participation in

216 Ibid.

217 WHO, 2015 *Countdown to 2015 Decade Report*" available at [https://www.who.int/workforcealliance/countries/Nigeria\\_En.pdf](https://www.who.int/workforcealliance/countries/Nigeria_En.pdf) Accessed 31/3/2020.

218 Ayodamola Owoseye (December 20, 2018), "Budget 2019: Buhari proposes N315 billion recurrent health expenditure", Premium Times, Retrieved from [https://www.premiumtimesng.com/health/health-news/302067-budget-2019-buhari-proposes-n315-billion-recurrent-expenditure.html%3famp\\_markup=1](https://www.premiumtimesng.com/health/health-news/302067-budget-2019-buhari-proposes-n315-billion-recurrent-expenditure.html%3famp_markup=1) Accessed 31/3/2020.

219 World bank, *data*, available at <https://data.worldbank.org/indicator/SH.XPD.OOPC.CH.ZS?locations=NG-GH-KE-ZG> Accessed 31/3/2020.

220 Ibid

221 International Budget Partnership (IBP) 2017. "Open Budget Survey 2017" p. 56. <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-report-english.pdf> Accessed 6/4/2020.

222 Ibid.

223 Ibid

the budget process, Nigeria should pilot mechanisms for members of the public and executive branch officials to exchange views on national budget matters during both the formulation of the national budget and the monitoring of its implementation. To improve budget oversight, Nigeria needs to publish a Pre-Budget Statement, In-Year Reports, and a Citizens Budget online and on time. Further, produce and publish a Mid-Year Review, and increase the information provided in the Executive's Budget Proposal by providing more detail on expenditures and revenue.<sup>224</sup>

## Tax challenges

Nigeria is the largest economy in Africa, yet it has one of the lowest tax to GDP ratios in the world, at about 6% of GDP.<sup>225</sup> The Report by the High-Level Panel (HLP) on Illicit Financial Flows from Africa showed that Nigeria accounted for 30.5 % of illicit financial outflows from Africa and Nigeria lost \$217.7 billion to illicit financial flows during the period 1970-2008.<sup>226</sup>

**Nigeria accounted for 30.5 % of illicit financial outflows from Africa and Nigeria lost \$217.7 billion to illicit financial flows during the period 1970-2008.**

According to a 2015 ActionAid report, Nigeria loses up to 0.5% of its GDP in corporate income tax incentives given to companies from Pioneer status alone. Using the 2015 budget figure, the estimated losses were put at \$2.6 billion per year.<sup>227</sup> The incentives comprised both CIT and import duty exemptions. Other incentives items included vaguely titled 'exemptions' and 'waivers'. The exemptions were also provided to some ministries and departments of the federal government.<sup>228</sup>

224 Ibid.

225 OECD 2019, *Revenue Statistics in Africa* available at <https://www.oecd-ilibrary.org/sites/5daa24c1-en-fr/index.html?itemId=/content/publication/5daa24c1-en-fr> accessed 10/04/2020

226 Partnership for African Social and Governance Research (PASGR) 2018. "Illicit Transfers and Tax Reforms in Nigeria: Mapping of the Literature and Synthesis of the Evidence" p. 6. <https://www.pasgr.org/wp-content/uploads/2018/09/Nigeria-Illicit-Financial-Flows-Report.pdf> Accessed 31/3/2020.

227 ActionAid, *The West African Giveaway: Use and Abuse of Corporate Tax Incentives in ECOWAS*, 2015. p. 13.

228 Ibid. p. 14.



## SOUTH SUDAN

South Sudan is a landlocked country with a population of about 10.9 million people, according to a 2018 World Bank estimate.<sup>229</sup> The country is one of the most recently formed, established in 2011 after breaking away from Sudan after decades of conflict, and becoming the 193<sup>rd</sup> member of the United Nations. The country has been in a civil war since 2013, which has claimed the lives of nearly 400,000 people<sup>230</sup>. The country has a human development index (HDI) of 0.413 (placing the country in the low human development index category), being ranked 186 out of 189 countries and territories.<sup>231</sup>

### Health profile

South Sudan has some of the world's worst health indicators. Life expectancy in South Sudan is 57.3 years according to a World Bank estimate.<sup>232</sup> The maternal mortality ratio stands at 789 per 100,000 live births, Infant mortality and under-five mortality rates are 39.3 and 99.2, per 1000 live births respectively.<sup>233</sup>

### Health financing

South Sudan's GDP per capita was US\$1,119.7 in 2015.<sup>234</sup> It has been estimated that South Sudan had a current health expenditure per capita of US\$28 in 2015. South Sudan spent just about 4 % of its total spending on health in 2014/2015.<sup>235</sup> However, this figure was low as 2 % in the

2018/2019 budget.<sup>236</sup>

Information on South Sudan's budget is both low and scarce. The country scored 5 out of 100 on the Open Budget Survey 2017.<sup>237</sup> Public participation in the budget process is virtually non-existent. South Sudan scored 2 out of 100 in the assessment of public participation in the survey. Budget oversight score is 54 out of 100 indicating a level of oversight below average.<sup>238</sup> The International Budget Partnership (IBP) considers a score of 60 on these assessments to attain an adequate level of transparency, public participation and budget oversight as applicable. South Sudan needs to prioritise certain actions to achieve an improvement on these scores. The IBP recommends that the country should publish an Executive's Budget Proposal, a Pre-Budget Statement, a Mid-Year Review, an Audit Report and In-Year Reports online promptly. The country also needs to produce and publish a Year-End Report and a Citizens Budget.<sup>239</sup>

### Taxation

South Sudan enacted its Taxation Act in 2009 and its revenue collection is 4 % of its GDP.<sup>240</sup> South Sudan grants tax incentives to investors in the form of tax holidays, accelerated depreciation, and exemption on import duties. Sometimes these incentives are given to investors on a case by case basis.

IFFs in South Sudan is high and the destinations are usually Kenya and Uganda through the manipulation of the currency exchange system where the value of the currency can be improved by 400% when moved to Kenya or Uganda; looting of oil, wood and metal; and high-level corruption in the procurement system that leads to the plunder of taxpayers money.<sup>241</sup>

South Sudan's tax system is not fully developed and although the Constitution provides various sources of

229 <https://data.worldbank.org/country/south-sudan> 31/3/2020.

230 Megan Special, (2018). "383,000: Estimated Death Toll in South Sudan's War" *The New York Times* Sept. 26, 2018. <https://www.nytimes.com/2018/09/26/world/africa/south-sudan-civil-war-deaths.html> Accessed 31/3/2020.

231 UNDP 2018. "Inequalities in Human Development in the 21st Century: Briefing note for countries on the 2019 Human Development Report *South Sudan*" p. 2. [http://hdr.undp.org/sites/all/themes/hdr\\_theme/country-notes/SSD.pdf](http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/SSD.pdf) Accessed 31/3/2020.

232 [https://apps.who.int/iris/bitstream/handle/10665/136881/ccsbrief\\_ssd\\_en.pdf?sequence=1](https://apps.who.int/iris/bitstream/handle/10665/136881/ccsbrief_ssd_en.pdf?sequence=1) Accessed 31/3/2020.

233 Ibid.

234 World Ban, *data*, available at <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=SS> Accessed 1/4/2020.

235 Olympio Attipoe, Biplove Choudhary & Nicholas Jonga, "An analysis of Government Budgets in South Sudan from a human development perspective" UNDP Discussion Paper 08/2014. <https://www.undp.org/content/dam/southsudan/library/Discussion%20Papers/SS-Discussion%20paper%20final.pdf>

236 Total budget figure for health in the 2018/19 budget was 1.76 billion South Sudanese pound out of a total budget figure of 81.6 billion. See <http://mofep-grss.org/wp-content/uploads/2018/12/Citizens-Budget-Enacted-2018-Budget.pdf> Accessed 6/3/2020.

237 <https://www.internationalbudget.org/open-budget-survey/results-by-country/country-info/?country=ss> Accessed 6/3/2020.

238 Ibid.

239 Ibid.

240 Joseph, Kenyi, 2016 <https://www.imf.org/external/np/ins/english/pdf/SouthSudan.pdf> accessed 10/04/2020

241 Institute of Economic Affairs [https://www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice\\_and\\_Poverty/AwarenessJoint/NairobiConference/SainnaPresentation.pdf](https://www.taxjustice-and-poverty.org/fileadmin/Dateien/Taxjustice_and_Poverty/AwarenessJoint/NairobiConference/SainnaPresentation.pdf) accessed 10/04/2020

revenues at state level, taxes are not harmonised or collected in a systematic manner.<sup>242</sup> As a result of the long-standing conflict in the country, physical tax collection – a major mode of tax collection – has not been effective in the face of physical intimidation of tax collectors. According to a 2011 report, tax collectors have reportedly been threatened, beaten or arrested when collecting taxes from business owners who may have been former rebel fighters.<sup>243</sup> In addition, many tax collectors and inspectors do not have the requisite skill to calculate taxes according to the tax rules.<sup>244</sup>

The government of South Sudan introduced taxes on aid workers in 2017 in a bid to combat hyperinflation. Following the outbreak of the civil war in 2013, dwindling government revenue resulting from reducing oil revenues has caused hyperinflation. Although the hyperinflation has eased in recent years, the reliance on oil and the associated shocks to the economy persist.<sup>245</sup>

South Sudan faces a major problem of tax evasion facilitated by corrupt tax officers. In 2019, the Commissioner of the South Sudan Revenue Authority claimed that despite the revenue authority collecting up to US\$9 million in tax revenue in February (up from US\$4.7 million in January), the tax body's local currency collection fell from 1.2 million pounds in January to 1.1 million pounds in February. He blamed banks for helping to divert tax revenue from the government's block account.<sup>246</sup>

242 AFDB 2017. "South Sudan Non-Oil Revenue Mobilisation and Accountability in South Sudan (Norma-Ss)" ECGF / RDGE DEPARTMENTS March 2017. [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/South\\_Sudan\\_-\\_Approved\\_Non-Oil\\_Revenue\\_Mobilisation\\_ORMA\\_PAR.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/South_Sudan_-_Approved_Non-Oil_Revenue_Mobilisation_ORMA_PAR.pdf) Accessed 17/4/2020.

243 Matthew Benson, 2011. "South Sudan: Making Tax Work" *African Arguments* [https://africanarguments.org/2011/11/14/making-tax-work-in-south-sudan-by-matthew-benson/#\\_ftn12](https://africanarguments.org/2011/11/14/making-tax-work-in-south-sudan-by-matthew-benson/#_ftn12) Accessed 17/4/2020.

244 Ibid.

245 The Economist, 2017. "To fight hyperinflation, South Sudan decides to tax aid workers" March 18, 2017. <https://www.economist.com/middle-east-and-africa/2017/03/18/to-fight-hyperinflation-south-sudan-decides-to-tax-aid-workers> Accessed 17/4/2020.

246 Dimo Silva Aurelio, 2019. "Tax Authority Warns it Will Name Corrupt South Sudan Officials" <https://www.voanews.com/africa/tax-authority-warns-it-will-name-corrupt-south-sudan-officials> Accessed 17/4/2020.





**DISCUSSION OF  
FINDINGS**

The review of related literature on health financing in Africa reveals that financing public health in many African countries continues to be a challenge. Governments of many African countries are faced with the problem of allocating revenue to fund key sectors. For many countries, rationing low government revenues has always manifested in reduced budgetary allocations to the health sector. Bold commitments to health programmes aimed at achieving the SDG -3 health targets, especially regarding universal health coverage, have not always been matched with the required government funding for health.

None of the countries in this study has met the Abuja declaration recommendation of allocating at least 15 % of the total budget to the health sector. Kenya allocated an average of 7.1 % of its budget to health from 2013 to 2018. Malawi spends 9.75 % of its budget on health. Burundi spent 12 % of its budget on health in 2017. Nigeria spent 4.1 % of its budget on health in 2019. South Sudan spent just about 2 % of its total spending on health in 2019. Hence, the level of government expenditure on health has been inadequate to fund universal health coverage schemes. Instead, out-of-pocket payments by individuals for health services have been steadily rising and contributing to the total health expenditure.

**None of the countries in this study has met the Abuja declaration recommendation of allocating at least 15 % of the total budget to the health sector**

An examination of health indices in the African region indicates a reducing pattern ranging from high to middle to low-income countries. The lowest ranges for healthcare outcomes and SDG 3 target indicators in Africa are middle to low-income countries with lower total gross expenditure on health. There is empirical evidence that there is a strong, positive correlation between total healthcare expenditures and total life expectancy, and a negative relationship between healthcare expenditures and the number of neo-natal, infant, and under-five deaths in Africa.

Health statistics obtained for the five African countries in this study (Kenya, Malawi, Burundi, Nigeria and South Sudan) indicate a pattern of a correlation between the level of healthcare spending and the level of Human Development Index (HDI). Nigeria and Kenya, countries which had the highest current expenditure per capita on health, both had the highest score on the human development index (HDI) – US\$ 79.34 (HDI 0.534) ranking 153 and US\$66.12 (HDI 0.579) ranking 147 respectively. By comparison, the figure for Malawi was US\$29.59 - (HDI

0.485) ranking 172 out of 189 countries, South Sudan US\$ 28 (HDI 0.413) ranking 186 out of 189 countries and Burundi US\$ 18.48 (HDI 0.423) ranking 185 out of 189 countries. However, this is not consistent with the health indicators relevant to the poor, particularly women and girls as shown in this report.

None of the countries in this study matches the global life expectancy of 72.4 years. Kenya has the highest life expectancy of 66.3 years, a difference of almost six years. Nigeria has the lowest life expectancy – 54 years – a difference of more than 18 years. Only Kenya has a healthy life expectancy higher than the regional average of 53.8 years. Life expectancy is increasing in the five countries in this study but the rate of increase among the five countries is varied. Malawi has the highest growth rate in life expectancy with life expectancy expected to grow by 0.69 % from 2019. Burundi life expectancy is expected to grow by 0.55 %, Nigeria by 0.54 %, South Sudan by 0.46 % and Kenya by 0.39 %.

None of the African countries in this study has met the SDG – 3 targets of reducing neo-natal mortality to 12 deaths per 1000 live births, and under 5 mortality to 25 deaths per 1000 live births but there is still a possibility of achieving this goal before 2030. Kenya is closest to meeting this target than any other country in this study. Kenya's under 5 mortality rates is 45 deaths per 1000 births while its infant mortality rate is 33.6 deaths out of 1000 infants, the lowest rate of under 5 mortality among the countries considered in this study. This figure is expected to decline by about 3.24 % in 2020. By contrast, Nigeria has an under 5 mortality rates of 100 deaths per 1000 live births. Infant mortality is 64 deaths per 1000 live births.

Findings from a review of the tax challenges faced by the five countries in this study reveal that they face similar issues in achieving sustainable and fair taxation. Tax compliance is a major issue in all five of the countries. There is a large informal sector which is not adequately captured by the tax net. A lack of proper and adequate documentation of taxpayers in largely informal sectors such as agriculture (Malawi, Kenya, and Burundi) promotes tax evasion and reduces transparency and accountability.

Further, the absence of transparency and accountability facilitates illicit financial flows. From the review of literature on illicit financial flows in the five countries, the evidence indicates that illicit financial flows result in significant revenue losses. Africa loses US\$50 billion annually due to illicit financial flows. 30.5 % of these losses are attributable to Nigeria alone. Malawi loses on average US\$650 million per year in illicit outflows and Burundi loses an estimated 6 % of its GDP annually to illicit financial flows. Revenues which could make universal healthcare coverage accessible and affordable

are leached away from the continent leading to problems which include a worrisome debt profile and a huge reliance on foreign aid.

**Revenues which could make universal healthcare coverage accessible and affordable are leached away from the continent leading to problems which include a worrisome debt profile and a huge reliance on foreign aid.**

Additionally, tax incentives and double taxation agreements are creating an avenue for leakages of potential tax revenue. All the five countries in this study offered one form of tax incentive or the other including tax holidays and special economic zones. These tax incentives are mostly profit-based, provided to attract foreign direct investments which in most cases are eclipsed by the amount of foregone potential tax revenue. The losses attributable to tax incentives are significant. Nigeria loses up to 0.5 % of its GDP (US\$2.6 billion per year) in corporate income tax incentives given to companies with pioneer status alone. Kenya loses about US\$ 1.1 billion a year from tax incentives and exemptions. Losses from the Malawian Industrial Rebate Scheme (IRS) amounted to US\$29.4 million in 2013.

The response to the COVID-19 pandemic by some African countries has been commendable but a lot needs to be considered and done. Particularly, in the area of disease surveillance and response system to prepare African countries for epidemics and pandemics.

In summary, there is a need for increased health financing in many African countries. Tax revenue represents a potential source of increased funding for health in Africa. Yet, leakages in tax revenue occasioned by systemic problems such as inefficient tax incentives, low tax compliance, illicit financial flows among other factors pose a challenge to this prospect. It is imperative to address these problems if tax revenue is to become a stable source of health finance in Africa.

# RECOMMENDATIONS

## What should African countries do to address health financing challenges?

The budget processes in many African countries have major flaws in the areas of style, transparency, participation and oversight. To address these problems, African countries should do the following:

- African countries should employ zero-based budgeting, which ensures that all planned expenditures for a new budget cycle are justified rather than using an incremental method that may not necessarily take into cognizance changes and priorities. This will improve scrutiny and budget efficiency.
- African governments should put in place avenues for budget participation such that citizens are given the opportunities to contribute and critique the budget proposals. This will engender trust and legitimacy. This can be achieved through organizing public hearings/sessions, online engagement, radio programs, and community outreach programs. Through these processes, a dialogue on the most important aspect of public service to different communities, regions or states in the country will be realized. Healthcare needs, as well as the resources needed for each community, will be ascertained. This will ensure proper planning through prioritization, and using a targeted approach due to limited resources, which will lead to budget efficiency.
- African governments should ensure the publication of budget information, disaggregated, broken down into segments, published with infographics and communicated to all for transparency purposes. Also, African governments should regularly update budget information on their websites.<sup>247</sup>
- African countries need to increase budgetary allocation to the health sector by adhering to the Abuja Declaration of allocating at least 15% of the annual budget to health. This will go a long way in addressing the challenges of the provision of public goods and services in the health sector.

<sup>247</sup> During the course of this study, it was difficult to obtain current budget information of many of the selected countries on official government websites. The researcher had to rely on secondary sources of information.

- Beyond achieving the target of the Abuja declaration, African countries should employ gender budgeting and mainstream gender into their budgeting to address the inequalities that exist as the budget impacts the genders differently. African countries should ensure adequate budgetary allocation towards addressing issues of maternal health care to reduce maternal mortality and to improve the general health of women in society. Increased allocation to maternal healthcare will also reduce the out of pocket expenses by women, which will mitigate against the induced poverty.

## What steps should African countries take to address the tax challenges facing financing for health?

There is consensus that taxation is the most sustainable means of funding development, yet the taxation framework that exists today is largely unfair and puts African countries at a disadvantage. From the information gathered from the jurisdictions of study, although the challenges may vary in terms of magnitude, particularly concerning IFFs, the challenges are similar. To address the challenges facing taxing for sustainable health in Africa, some steps need to be taken by African countries.

- African countries need to deliberately create a strong link between fiscal policy and health policy. To do so, taxation must be the most sustainable source of financing health so that African governments boost their efforts towards improving taxation.
- African countries need to improve the state-citizen relationship through increased transparency and accountability to foster legitimacy, improve tax morale, and voluntary tax compliance. Improving transparency includes participatory tax policymaking, the publication of tax revenue collected, and how taxes are utilized. To improve accountability, African countries should create a linkage between taxation and the provision of public goods and services, particularly health services, and this should be communicated to the public through different means of communication to reach all segments of the society.
- Increased awareness and simplification of tax payment will also go a long way in encouraging tax

compliance in African countries as many of their population may not fully understand their obligations as well as their rights. They may not be encouraged to file and pay if the processes are cumbersome. To achieve simplicity, measures such as e-filing, the use of mobile money for payment of taxes, particularly for the informal sector, should be explored.

- A review of the tax incentives framework in African countries is necessary. Most of the incentives are profit-based incentives and they lack any cost-benefit analysis. African countries should phase out profit-based incentives, and conduct cost-benefit analyses before granting any incentives. The incentives should be subject to the parliamentary process and they should publish the revenue foregone for granting the incentives, as well as the beneficiaries of such incentives.
- African countries should collectively pursue the adoption of unitary taxation with a formulary apportionment as a replacement to the current separate entity standard. This will ensure that revenues generated in African countries are taxed in Africa. This will significantly increase revenue of African countries and reduce illicit financial flows.
- African countries should set up set up beneficial ownership registers to have better information on real ownership of assets and income to address issues such as money laundering, tax evasion, terrorism financing, bribery and corruption and many other harmful financial practices. To achieve this, African countries need to strengthen the capacity of specific regulatory institutions such as Financial Intelligence Units, revenue authorities, and other regulatory bodies mandated to fight financial crime. In addition, a local exchange of information between the relevant regulatory bodies such as sharing information on suspicious transactions. This will ensure a unified and consolidated approach to fight financial crime and tax evasion.
- African countries should subscribe to Automatic Exchange of Information (AEOI). AEOI provides for the exchange of non-resident financial account information with the tax authorities in the account holders' country of residence. This will help address tax evasion and aggressive tax planning, reveal hidden assets in other jurisdictions, increase international tax cooperation, reduce IFFs, and increase the revenue of African countries.
- African countries should subscribe to public country by country reporting (PCBCR). PCBCR is a critical accountability tool that ensures that information on the activities of multinationals in different countries are shared among the jurisdictions in

which the multinationals operate. This will increase transparency and accountability, address issues such as aggressive tax planning, tax evasion and other harmful tax practices.

- African countries should adopt the so-called sin taxes. Sin taxes are used to discourage behaviours that are harmful to citizens, behaviours that will lead to increased health challenges that will, in turn, increase the burden on the healthcare systems. Taxes such as tobacco and alcohol taxes can be introduced or increased in cases where they already exist to discourage smoking and drinking and increase revenues to address health challenges arising from smoking, drinking, and similar risky health behaviours.

### **What should Civil Society organisations do?**

Civil Society Organisations (CSOs) have a crucial role to play in improving health financing in Africa. I recommend these approaches to be carried to address the challenges facing health financing in Africa. These approaches can also be adopted for other advocacy issues on the continent and beyond.

#### **Conduct policy-oriented research**

The importance of evidence-based advocacy cannot be overemphasized. Conducting empirical research and gathering information on the subject matter will lay a strong foundation for effective advocacy. The research will ensure that there is an understanding of the problem, the context and the nuances among different African countries. To achieve an in-depth understanding of the issue, a thematic approach is required and the three core themes to consider are the health, taxation and public expenditure in the countries of studies. These three themes will provide a robust analytical framework to identify the relevant data to collect, the heterogeneity or homogeneity of the cases, and best approach to resolve the challenges. In conducting the research, a mixed-method approach would be best – an explanatory design approach which starts with the collection of quantitative data followed by the collection of qualitative data will provide a detailed understanding of the issue and a robust framework for analysing and interpreting the quantitative data collected.<sup>248</sup>

#### **Capacity building**

Based on the evidence gathered through the empirical research, relevant civil society actors including journalists, activist and professionals working in the development

<sup>248</sup> See annexes for relevant data and sources

sector should be trained such that they are better informed on the issues and the importance of their roles in addressing the challenges. These capacity building programs can be carried out in different ways – the training can be carried out in the form of workshops, peer learning, and face-to-face classroom teaching or online through webinars. Actors should be trained based on the three thematic areas to give them a strong understanding of the issues, how they relate to each other and the best approaches to address them. This teaching will include training on data collection, research and analysis, use of analytical tools such as Stakeholder mapping, Power analysis, Alignment Interest Matrix, SWOT Analysis etc. Actors should be trained to develop indices and matrices to measure and compare progress in different countries using a robust analytical framework. Furthermore, actors should be trained on effective communication for more impactful advocacy.

Furthermore, the coalition should engage in coordinated campaigns and strategic advocacy, including identifying champions followed by routine evaluation of their strategies and outcomes.

## **Effective Communication**

CSOs play a critical role in achieving the SDGs, however, for their work to be effective they will need to invest in effective communication. The use of several means of effective communication by CSOs will amplify their work and create the necessary impact to inspire social change. This can be achieved by first portraying the issue as a systemic one which has socio-economic implications including its impact on health, livelihoods and the economy at large. CSOs should show the linkages between issues such as illicit financial flow, lack of transparency in public finance, and the health conditions in Africa. This will provide the public, the policy makers and relevant stakeholders a better perspective of the implications of the challenges to health.

CSOs should employ the different channels of communication, TV, radio, print media, electronic media etc. These channels should reflect the stakeholder need, for example using radio and community outreach to disseminate research findings to rural communities. The channels can be further broken down into the use of policy papers, blogs, infographics, documentaries, talk shows and the use of websites, to track and publish policy implementation and to report findings.

## **Coalition Building**

Forming coalitions to advocate for sustainable health financing in Africa will go a long way in amplifying CSO voice and their capacity to influence policy. To achieve this, CSOs should form a network of like-minded groups and individuals based on the thematic areas analysed in this paper. Members of this coalition should agree on ideological approach, engage in collaborative research and peer learning to form a robust position on the issue.

# CONCLUSION

As this study has shown, the health profile of the countries of study, and indeed the health profile of African countries, generally remains in dire straits, and this is largely attributable to poor health financing and a weak and unfair system of taxation.

Addressing the challenges of low budgetary allocation to health, opaque budgeting and weak tax system, and improving the effectiveness of civil society actors as recommended in the study, will go a long way in improving Universal Health Coverage. This will reduce out of pocket payments and improve the health profile of the continent, especially on the issue of maternal and child health leading to achievement of the SDG3 target and attainment of the Agenda 2063.



# ANNEXES

## Annexe I: Country statistics

	Kenya	Malawi	Burundi	Nigeria	South Sudan
<b>Health and disease stats</b>					
HDI (2019*)	0.579	0.485	0.423	0.534	0.413
Life expectancy (2017) (Years)	66.3	63.8	61.2	54.3	57.3
Healthy life expectancy (Years)	46.3	51.2	52.2	47.7	49.9
Neo natal mortality (per 1000 live births)	33.6	38.5	42.5	64.6	39
Under 5 mortality (per 1000 live births)	45	55	61	100	99
Adult mortality rate (average)					
Adult mortality rate (male)	252	331	315	368	329
Adult mortality rate (female)	174	281	257	328	304
Child malnutrition, stunting (% under age 5)	26	37.1	55.9	43.6	31.1
Malaria incidence (per 1000 people at risk)	70.8	231.1	194.5	281.1	141.1
Tuberculosis incidence (per 100,000 people)	292	181	111	219	146
HIV incidence age 15 - 49 (per 1000 people)	1.6	4.4	0.2	1	2.6
MMR (per 100000 live births) modelled estimate 2017	342	349	548	917	1150
<b>Tax and finance stats</b>					
GDP per capita (US\$)	1710.5 (2018)	389.4	271.8	2,028.20	1119.7(2015)
Tax to GDP ratio %	15.7 (2017)	17(2018)	13.6	5.7	
Health budget per capita	78	10.4	59	74	28
Health budget as % of GDP	4.5 (2019)	9.8	6.9		2.74
Out of pocket exp. Per capita	18.36	3.37	5.63	59.67	58.48
Out of pocket exp. (% of health expenditure)	27.21	11.39	30.51	75.21	

## Annex II: Key factors to consider for addressing health financing in Africa

Healthcare	Financing	Taxation	Advocacy
Improving the life expectancy rate	Budget Transparency	Addressing Illicit Financial flows	Research and analysis
Improved sexual reproductive and Reducing maternal mortality	Improve Participatory budgeting	Unitary Taxation with a formulary apportionment	Capacity building
Reducing infant mortality	Meeting the Abuja declaration	Accountability	Coalition building
Preparedness for pandemics	Improving health budget per capita	Social Contract	Use of special tools for mapping and problem solving
	Reducing out of pocket expenses	Evaluation of tax incentives	Critical Stakeholder engagement

	Improved access to insurance	Evaluation of Double Taxation Treaties	Effective communication: Campaigns including media, documentaries, etc
	Gender budgeting	Gender sensitive taxation	
		Progressive taxation	

### Annex III: Key data to consider and sources of the data

Data	Source
Tax to GDP Ratio	OECD
Abuja Declaration (15% of annual budget dedicated to health)	National Budgets and CSO reports <sup>2</sup>
Out of pocket payments	WHO
Health budget per capita	World Bank
Maternal mortality	WHO
Infant mortality	WHO
Life expectancy rate	WHO
Illicit Financial flows	UNECA, TJN, TJNA
Tax expenditure	National Ministries of Finance, CSO reports
Country annual budgets	National Ministries of Finance
Poverty statistics	UNDP

### Annex IV: Critical stakeholders to consider for advocacy purposes

National Ministries of Finance
National Revenue Authorities
Ministries of Health
Multilateral Organisations (WHO, OECD, ATAF, IMF, UNICEF, AU)
Civil Society Organisations (TJNA, Christian Aid, TJN, GFI, FTC, GATJ, Action Aid, BudgIT, Oxfam, PALU, SEATINI, EATGN, ICIJ etc)
Multinational companies operating in Africa (e.g. companies in oil and gas, mining, tobacco etc.)
Audit and Advisory Firms, especially the big four. (PWC, KPMG, EY and Deloitte)
Big Law firms
Citizens

#### (Footnotes)

1 World Health Organization Global Health Expenditure Database. Current Health Expenditure PPP (current international \$). Available at <https://data.worldbank.org/indicator/SH.XPD.CHEX.PP.CD?locations=BI>

2 Ordinarily, this data should be published by national governments, but most African governments do not publish the breakdown of their budgets. However, CSOs such as BudgIT in Nigeria provide budget analysis with breakdown.





© Tax Justice Network Africa (August, 2020)  
Jaflo Limited | Block 3 | 106 Brookside Drive | Westlands  
P. O. Box 25112-00100 Nairobi-Kenya

Contacts

Email: [info@taxjusticeafrica.net](mailto:info@taxjusticeafrica.net)

Tel: +254 728279368]

[www.taxjusticeafrica.net](http://www.taxjusticeafrica.net)