Fiscal Space Analysis for Health 2020

Islamic Republic of Afghanistan

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Abbreviations

ARTF	Afghanistan Reconstruction Trust Fund
BHC	Basic Health Center
BPHS	Basic Package of Health Services
CHC	Comprehensive Health Center
CIT	Corporate Income Tax
CPI	Consumer Price Index
DBD	Development Budget Department
DHIS2	District Health Information Software
DH	District Hospital
EPHS	Essential Package of Hospital Services
EMIS	Expenditure Management Information System
EU	European Union
GDP	Gross Domestic Product
GDPA	General Directorate of Pharmaceutical Affairs
GF	Global Fund
GFF	Global Financing Facility
GIRoA	Government of the Islamic Republic of Afghanistan
HEFD	Health Economics and Financing Directorate
HFPM	Health Financing Progress Matrix
HF	Health Financing
HFS	Health Financing System
HMIS	Health Management Information System
HSS	Health Systems Strengthening
HSR	Health Sector Resiliency
ICT	Information and Communication Technology
IFI	International Financial Institutional
IRoA	Islamic Republic of Afghanistan
IPEHS	Integrated Package of Essential Health Services
MoPH	Ministry of Public Health
MoF	Ministry of Finance
MoD	Ministry of Defence
MoI	Ministry of Interior
MoHE	Ministry of Higher Education
NCD	Non-Communicable Disease
NGO	Non-governmental organization
NHA	National Health Account
NHMRA	National Medicine and Health Products Regulatory Authority
NSA	National Security Council
OOP	Out of Pocket
PCH	Partnership Contracts for Health
PETS	Public Expenditure Tracking Survey
PIT	Personal Income Tax
PHC	Public Health Center
PFM	Public Finance Management
PMO	Performance Management Unit
RGSF	Revenue Generation Strategic Framework for Health Sector
SDG	Sustainable Development Goal
SHC	Sub Health Center
SOP	Standard Operational Procedure
TB	Tuberculosis
UHC	Universal Health Coverage
USD	United States Dollar
USAID	United States Agency for International Development
VAT	Value Added Tax
VHI	Voluntary Health Insurance
WBG	World Bank Group
WTP	World Food Organization

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About this report

This report on fiscal space analysis, produced for the second time in Afghanistan, assesses the various options of increasing fiscal space to finance health in Afghanistan, addresses current barriers and ways to incentivize government actions to create the fiscal space for health. It outlines several key factors that could help to further strengthen existing approaches and allow for a more comprehensive assessment of fiscal space. This document is meant to assist with better and more informed decision making and planning and create dialogue between MoPH and MoF through the evaluation of options for increasing investment in health via increasing fiscal space for health. The report is structured based on the conceptual and analytical framework designed by the World Bank and WHO and includes the following areas: macro-economy, re-prioritization of health, health sector specific resources, health sector grants and foreign aid and efficiency gains. We provided several fiscal space options for health using MoPH, MoF, IMF and World Bank data taking into account COVID-19 effects on national and international economy. In this report, we tried to address known barriers that prevented the government of Afghanistan to prioritize health and enhance fiscal space for health. The paper is targeted towards policy makers in MoPH and MoF and other relevant authorities involved in financing of health services both within government and donor agencies. This report is prepared by WHO consultant Mr Dejan Loncar.

Executive Summary

The prolonged sluggishness in economic development coupled with an unfavourable political situation and poor institutional capacities has led to very little fiscal room for manoeuvre in GIRoA. Despite these constraints, it appears that the health sector hasn't been prioritized to build additional and sustainable fiscal space for health. Since 2001, the GIRoA has been benefiting from strong international financial support for health, thus this provided opportunity influences the MoF to balance and support other sectors with less international financial support. There has been an increased demand for the enhanced funding for health to reduce high OOP on health spending and dependence of GIRoA on international funding in the health sector. After the signing of a peace deal between the Talibans and USA supported by GIRoA to pave the way for eventual peace, there is more opportunity for GIRoA to build investment trust and economic prosperity. Consequently, there will be more opportunity for Afghanistan to increase fiscal space for health, but on other hand this might decrease donors' interest for investment in health in Afghanistan. The COVID-19 crisis is having a devastating effect on all social and economic sectors which will additionally worsen the already difficult GIRoA fiscal position. A typical response is fiscal stimulus, under which the government increases spending and decreases taxes and the interest rates with an overall objective to push aggregate demand. In the case of Afghanistan such a stimulus package is not realistic as it requires financial resources and strong institutions, factors that Afghanistan lacks. The pandemic is affecting the donors' position and how they are reallocating the funding to alleviate the pandemic's effects which might reduce international contributions to support the Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS).

The MoF had projected a significant decrease in the government health budget even before the COVID 19 pandemic appeared in Afghanistan from 213 million USD in 2019 to 96 million USD in 2021 (red dotted line, Figure 18). The outbreak of the COVID-19 will have a significant

impact on Afghanistan's economic development this year so we can expect that annual GDP growth will decrease (Figure 3.), from 2019 to -3% in 2020 and potentially increase to 4.5 % in 2021 (IMF, World Economic Outlook - April, 2020). Therefore, we positioned our fiscal space analysis to firstly estimate how we can cover the health financing gap created by the MoF projections if we maintain government health financing level recorded in 2019, and secondly we assess potential to additionally increase fiscal space for health from that level.

The health financing position of GIRoA is worrisome and urgent action is needed to mobilize all in-country stakeholders to discuss how to cover the deficit in health financing in 2020 and 2021 in relation to health spending in 2019, retrospectively, 54 million USD and 22 million USD (Table 9.). The fiscal space analysis provides a more optimistic scenario for 2022 and 2023 where enhanced fiscal space for health can be achieved if there is strong GIRoA support of health financing reforms defined in the MoH Revenue Generation Strategic Framework for the Health Sector. Our analysis (Table 9.) estimates that 124 million USD and 188 million USD can be generated, respectively, in 2022 and 2023 on top of health spending in 2019.

The following recommendations are made in order to expand fiscal space for health:

- Reprioritization of health should become a priority in Afghanistan, as according to the current situation, it seems that there will be a decline in international aid, which is coupled with low domestic health contributions and the absence of prepaid health mechanisms. In order to improve the health of the citizens of Afghanistan, the key priority of MoPH is to increase the currently very low domestic public health spending in real terms.
- Sufficient alignment needs to be brought between on and off budget with all relevant in-country stakeholders. This is to be achieved by ensuring consensus of all key stakeholders related to health financing directions and by building a stronger role of off budget programmes on MoPH strategy and policies.
- There is an urgent need for the MoPH to strengthen advocacy efforts and communication with the MoF to enable conditions for enhancement of fiscal space for health. In order to support the implementation of short and medium time-frame key health financing reforms, it is advisable that the MoPH strengthens their advocacy efforts proactively, and engages key donors to include relevant technical and decision making partners from the MoF and parliament to gain their support for key issues. The MoPH and MoF need to discuss and re-affirm their working arrangements on a technical level, which will then reflect the changing realities in which they operate to benefit from a mutual understanding of needs, budgeting processes, demand generation and communication of key messages to the top managerial level.
- It would be useful for the MoPH to get updated information regarding donors' health investment commitments because of the situation with COVID 19, so that they can proceed with stable and predictable mid to long term planning of their budgets. This pandemic has made policy makers reconsider existing budget allocations not only across sectors, but within the health sector as well. These re-allocations ought to be viewed with consideration of efficiency gains and deemed as sources for potential increase of fiscal space for health and optimization of resource allocation in the health sector. Even though there may be a reduction in the projected donor funding, the MoPH and MoF should adapt the current resource mobilization strategy through demonstration of international aid results and impacts.
- Priority should be given to earmarked taxes for health, especially tobacco taxes following Revenue Generation Strategic Framework for the Health Sector (MoPH 2018) and Afghanistan Health Insurance Feasibility Study phase two: Health Insurance Benefit Package and Actuarial Analysis (MoPH 2020).
- Prioritize and accelerate the introduction of health insurance, as possible, with the design of a system that does not discriminate against the poor. Continue with a strong effort in developing a social health insurance law and regulations and establishing an appropriate national institution to govern the social health protection schemes.
- Expand efforts in the decentralization of hospitals and optimization of user fees on secondary and tertiary healthcare levels in order to maximize the efficiency of their

resources, through support in capacity building and fiscal responsibility. A greater financial autonomy that assigns user fee revenue generation and expenditure responsibility to public health facilities, needs to be given to public hospitals to improve management, efficiency and quality of healthcare services, utilization of high cost effective health interventions, staff planning, and service pricing and delivery.

- The MoPH and MoF to consider possible scenarios for enhancement of fiscal space for health presented in this document and select the most realistic options and a course of action that will bring additional fiscal space for health in the short (2020/2021) and medium time frames.

1. Introduction

The Government of Afghanistan is under considerable pressure from Non-Communicable diseases (NCD) and communicable diseases (CD), a growing population and the need to adapt for more effective health service standards to combat the high disease burden. Although IRoA's health outcomes are improving, because of the high disease burden the country is unlikely to achieve its national targets for health as well as the health-related Millennium Development Goals. In order to progress toward universal health coverage and promote social and economic development of all people in Afghanistan, the MoPH needs to enhance, the currently very low, domestic public resources for health. IRoA currently allocates 4.2% percent of the government budget to health (MoF, 2019). The percentage of public health expenditure and domestic public health expenditure out of total health expenditure in 2017 was 5.1% and 2% respectively (MoPH, 2019).

The health financing architecture in Afghanistan has been characterized by low government health spending, high dependence on donors' investment in health and high OOP health expenditures. The increased domestic public expenditure on health can decrease very high OOP health spending and strengthen the health system's components in a sustainable way. The United Nations and International Financial Institutions suggest eight possible financial options to extend social protection including health: expanding social security coverage and pre-payment contributory revenues, increasing tax revenue, eliminating illicit financial flows, re-allocating public expenditures toward more cost-effective and high impact interventions, eliminating spending inefficiencies, using fiscal and central bank foreign exchange reserves, managing debt - borrowing or restructuring sovereign debt and increasing aid and transfers (Ortiz, Chowdhury, Valverde, Muzaffar, & Urban, 2019). In the context of Afghanistan, general government revenue can be increased through several ways such as: strengthening planning and budgeting processes, improving tax compliance and efficiency in revenue collection, maximizing revenue from natural resources and industries such as agriculture, increasing tax rates and efficiency gains. The emphasis should be on increasing revenue through the most progressive means possible, while focusing on sustainability. Increasing government revenue through progressive taxation is the first fiscal policy choice or political decision in many countries. However, due to the very low economic development level of people in Afghanistan, dominant informal sectors and a lack of information about the poor segment of the population, it will be challenging to implement any taxation that will ensure progressive effects. In this paper, we analyze the relationship between the level of economic development and levels of government revenue and expenditure, and fiscal potential for increasing domestic public health spending.

Afghanistan is a country that has suffered through decades of conflict, which has been reflected on the country's health system. Since the introduction of the Basic Package of Health Services (BPHS) and Essential Package of Hospital Services (EPHS), impressive progress has been made in several areas, particularly in terms of coverage and quality of health services. Access to health care has improved from 9% in 2002 to 87% in 2014 (MoPH, 2016). There are also declining trends in infant, under-five and maternal mortality rates, as well as upward rates in antenatal coverage and institutional deliveries. The current health expenditure in 2017 in IRoA of 81 USD per capita, where 61 USD per capita is OOP health spending, is very low according to WHO standards and insufficient to meet the population's need for healthcare (MoPH, 2019). The out of pocket expenses in Afghanistan amount to 75.5% of current health expenditures, according to the 2017 NHA. Out of that, 47% is spent on medicines, and 35% on diagnostics. In 2017, this meant that these costs pushed 14% of

households into poverty, with the poverty line already being at the rate of 54% in the country. In 2019, only 4.2% of the government's total budget was designated for the health sector (MoF, 2019). Donor funding, which the health sector heavily relies on, is in a downward trend and is expected to be so for the foreseeable future. The current amount of international aid per capita is USD 105 (World Bank, World Development Indicators, 2019b), which is down from USD 148 in 2014. The findings from the Fiscal Space Analysis done in 2016 have indicated that there is a very limited capacity from foreign aid and that prioritization of health is of high importance. In addition, due to COVID 19 effects on donors' economies, we can expect that even the current donors' contributions will be reduced. This means that the GIRoA will have to start relying more on its own resources in the development of the country and its health system. Thus, our fiscal space analysis is mostly focused on the measures to support generation of fiscal space from domestic sources.

Macro-economy: In 2019, Afghanistan is looking at rate of growth of 3% (IMF, World Economic Outlook - April, 2020) which is a 0.3% increase compared to the previous year. Economic prospects and revenue collection are expected to drop in 2020 due to COVID 19 effects and rise at a very modest rate in the future. The MoPH has limited influence on macroeconomic prospects and would be best served to focus on the pillars which are in the domain of the health sector.

Re-prioritization of health is an area where significant potential can be seen for gaining fiscal space. The budget allocation 2019 for health was at 4.2% (MoF, 2019) of the total budget, with most of the budget being spent on security and public safety. Advocacy within the government to enhance government health allocation to the recommended 15% of their budgets is of strategic importance.

Health sector specific resources include taxation earmarked for health, as well as the introduction of a health insurance scheme in the country. The Revenue Generation Strategic Framework (RGSF) for 2018 specifies that over USD 192 million can be raised for health through additional taxation of vehicles, fuel, unhealthy food, tobacco and the launch of health insurance.

Health sector specific grants and foreign aid show limited potential for increasing fiscal space. The moderate to long term trend of foreign aid to the country, although still significant, is declining. One of the possible recommendations for the health sector is to attempt reaching non-traditional donors.

Efficiency gains present limited fiscal space potential as the execution rate of the MoPH development budget is at 92.9% in 2020. Where there might be room for growth in efficiency is in the decentralization process, procurement and preventive care activities. The efficiency gains should be strengthened in parallel with increasing of domestic health contribution.

2. Purpose and Objectives

The objective of this paper is to update the Fiscal Space analysis that was conducted by the MoPH of IRoA in 2016, assess progress that has been achieved so far and explore new options for the enhancement of fiscal space for health. This analysis will support the Government of Afghanistan in building sustainable health financing and a resilient health system and provide an even more systematic approach to assessing fiscal space for health following World Bank and WHO methodology, present the fiscal space options that can help MoPH to move forward with enhancement of investments in health sector. More specific objectives are:

i. Update and analyze the fiscal space for health of IRoA
ii. Assess progress achieved, potential barriers and suggest ways to move forward
iii. Estimate potential increases in fiscal space for health through various scenarios
iv. Make recommendations on how to prioritize and leverage potential opportunities, considering feasibility and socio-political and economic factors

3. Conceptual framework, data sources and limitations

3.1. Conceptual framework

A fiscal space can be defined as "the availability of budgetary room that allows a government to provide resources for a given desired purpose without any prejudice to the sustainability of a government's financial position" (Heller, 2006). The effectiveness of fiscal space in boosting economic growth is recommended to be considered when assessing fiscal space. In particular, the possibility that a country has a very low or even a negative fiscal multiplier makes a strong case for linking fiscal space assessment to fiscal policy effectiveness. All approaches reviewed in this paper are based on the following assumptions: (1) an accurate prediction of the future trajectory of fiscal and macroeconomic variables and (2) future fiscal and market behaviors in line with past behaviors. Since none of these two conditions can be completely fulfilled in context of Afghanistan, fiscal space can be just estimated.

There are four main potential sources of fiscal space: economic growth, reprioritization of budget expenditure, tax revenues, and efficacy in public expenditure. Thus, our conceptual framework for assessing fiscal space for health is organized around five pillars: macroeconomic prospect of IRoA, potential for re-prioritization of health within GIRoA, feasibility for mobilization of health sector specific resources (i.e. earmarked taxes for health), availability of health sector external aid and potential of efficiency gains in IRoA health system. Through analysis of these mutually interactive pillars, the MoPH and MoF will get a comprehensive evidence-based picture of options for enhancing fiscal space for health. This analysis can be used as part of health sector-specific public expenditure reviews (PERs), Medium-Term Expenditure Frameworks (MTEFs), or as a stand-alone assessment to inform policy dialogue with governments and other stakeholders. A fiscal space assessment for health is analyzed through IRoA specific country context, focusing on promising strategies that can enhance fiscal space for health on short to medium timeframe. Moreover, our goal is to map out a long vision aspirational goal that most likely cannot be implemented in the short and medium term in Afghanistan but pave the way towards a stronger and resilient health system and Universal Health Coverage (UHC).
Afghanistan's fiscal space has been strained due to prolonged political and security unrest, an unfavorable investment trust situation and low economic development. The COVID 19 pandemic will put additional pressure on the health system and GIRoA's fiscal position. This poses a challenge for the government of Afghanistan, to raise fiscal space for health and increase health expenditure for people of Afghanistan to sustain decent life conditions. In addition, population growth and a growing percentage of people who live below the poverty line increases pressure on the government budget and limits fiscal room for manoeuvre.

3.2. Data sources

The analysis mainly relies on the following data sources: Fiscal Space Analysis 2016, MoH Revenue Generation Strategic Framework document, Mid-Year Review 2019 - MoF budget and expenditures data, National Health Accounts 2017, IMF and World Bank databases with information on macroeconomic indicators, development outcomes, and expenditure on health, as well as information from MoPH officials and development partners. Projections of potential increased fiscal space for health were informed by data from the MoPH on government budget, revenue and expenditure and the International Monetary Fund (IMF) World Economic Outlook (WEO) published in October 2019 and April 2020 on GDP and inflation. We reviewed a range of fiscal space measures and explored the advantages and disadvantages of each measure.

3.3. Limitations

During this study, we considered data as the most important limitation. There are also substantive differences in the data available from IMF and MoF sources. These differences often arise from methodological choices source.

4. Health system context

The current situation in GIRoA has been characterized by weak macroeconomic prospects due to prolonged conflicts, still very sensitive political and security situations, a weak health system and high dependence of GIRoA on external assistance. There are other socio-economic factors that are putting additional pressure on an already fragile health system of Afghanistan such as a growing population, high unemployment rate and a percentage of the population who live under poverty line, low percentage of the formal sector, weak in-country capacity, high rural/urban ratio, etc. Afghanistan's government health expenditure, measured as a share of GDP, is one of the lowest in the world. IRoA has made significant progress in several health outcome indicators since 2003 and the introduction of BPHS and EPHS health packages. These have become the cornerstone of the Afghan health system and have been instrumental in its development, as well as providing health coverage to 87% of the population (MoPH, National Health Strategy 2016-2020). BPHS defines the services by all types of primary health care and specifies the staff, equipment, diagnostic services and medication required to provide them. This system has improved life expectancy at birth from 42 years in 2002 to 64 years in 2012. Only 9% of the population lived within an hour's walk to a health facility in 2001, but by 2014, 57% had access to a health facility less than an hour from their place of residence. Access to basic preventive and treatment services increased from 9% in 2002 to 78.7% in 2018 (MoPH & USAID, 2018). The MoPH is currently working on establishing an Integrated Package of Essential Health Services (IPEHS) which will build on the existing packages, but it will be better equipped to mirror the current epidemiological profile and the health needs of the population. This package will include health, clinical and surgical interventions, population public health interventions and inter-sectoral policy interventions. While admirable progress has been made in providing access to health services and bettering the health outcomes of the population, the country is still facing significant challenges. IRoA is facing a double burden of disease as communicable diseases continue to take their toll, while non-communicable diseases are increasing rapidly. It might even be argued that Afghanistan is facing a triple burden of disease, with injuries due to armed conflict being the last category (MoPH, 2019). The country also has one of the highest maternal mortality rates in the region, while life expectancy is low.

4.1. Health Financing

The current health expenditure in IRoA of 81 USD per capita, where 61 USD per capita is OOP health expenditures, is very low. This is especially problematic as it exposes vulnerable populations to the risk of impoverishment. In the context of Afghanistan, it obvious that government health investment in health is very low compared to neighboring countries, and that it needs to be increased in a reasonable timeframe otherwise GIRoA and its people risk facing withdrawal of donor funding which might have a catastrophic impact on the health system and the people of Afghanistan. Therefore, urgent actions need to be taken by the MoPH to increase domestic government health spending, reduce OOP health spending and eliminate inefficiencies in healthcare.

A pre-requisite needed for the increase of fiscal space for health are well-defined health needs based on a comprehensive and costed health strategy. The MoPH has developed a costed National Health Strategy 2016-2020 coupled with projected donor contributions up to 2020. The main goal of the NHS is to deliver better and equitable access to good quality health services and to do so affordably. The aim is to improve and provide a better sustained, efficient

and developed health system, resulting in the improved health and nutrition of all populations, with a special emphasis on women, children and vulnerable groups. The Strategy focuses on six main areas: 1. Governance, 2. Institutional development, 3. Public Health, 4. Health Services, 5. Human resources for health and 6. M&E, health information, learning a knowledge/evidence based practices. The MoPH has a limited influence on macroeconomic prospects, potential for re-prioritization of health and mobilization of health sector specific resources for potential increase of fiscal space for health as according to law, is a primary role of MoF. However, the influence of MoPH is much stronger on pillars which are in the direct domain of the health sector: availability of health sector to mobilize external aid and ability to benefit from efficiency gains. The effects of health on the economy can be seen in several ways. Healthy employees will have greater personal productivity, production losses due to illness are reduced as well as the number of sick leave days taken. Additionally, healthy populations tend to live longer, become more productive and save more, which in total contributes to economic progress. To be able to advocate for health it is important to understand and analyze exogenous relations of each pillar between the economy and the health sector and how a change of parameters in economy will affect allocation in health. Additional fiscal space is only effective if underlying inefficiencies that lead to leakage and waste of health sector resources are addressed, and the capacity to absorb additional resources is adequate.

4.2. Health outcomes and future health needs

The MoPH, together with its international partners, has managed to make impressive progress in health outcomes, even with uncomplimentary political and economic situations. This was done through the implementation of the BPHS and EPHS programmes, and the largest advancements were achieved in the fields of reduction of child mortality and improvement of maternal health. The under-five mortality rate was reduced from 257 in 2002 to 62 deaths per 1,000 live births in 2018 while maternal mortality was reduced from 327 in 2011 to 312 in 100,000 maternal deaths in 2016 (World Bank, World Development Indicators, 2019b). The number of reported HIV cases increased from 560 in 2012 to 770 in 2018 (UNAIDS, 2019). The incidence of tuberculosis has been flat since 2015 amounting to 189 cases in 100,000 in 2018 (World Bank, World Development Indicators, 2019b). There is still significant work to be done in order to progress towards the Sustainable Development Goals (SDG) of reducing maternal mortality to 70 per 100,000 and under-five mortality to 25 per 1,000. This is partially due to constant low coverage of some key health interventions, particularly amongst the poorest population which makes up 54.4% of the country. Another issue that is exacerbating the weakened health system is increased population growth, consequently creating more requirements that need to be addressed. The health system will need considerable additional funding in order to proceed and be able to increase the coverage of vital health services in order to address the burden of disease of NCDs and CDs.

4.3. Health service delivery

The BPHS and the EPHS are the vital means by which the government ensures health services delivery to the entire population, and as such they are the backbone of the country's health system. While developing the BPHS, the MOPH worked within a framework of specific objectives to: include basic services that would have the greatest impact on the major health problems, with these services constituting a standardized package of basic services that would form the core of service delivery provided in all primary health care facilities; ensure the quality of services provided; include services that would be cost-effective in addressing the problems faced by many people; extend coverage of the population that had access to these services in an equitable manner for both rural and urban populations; provide a foundation for the new health system for Afghanistan focused on community-based health care. The IPEHS package has been designed and costed to replace BPHS and EPHS to improve utilization of needed health interventions, quality, and access to healthcare. However, the cost of implementation of IPEHS will significantly increase the health budget due to

implementation of wider scope of healthcare interventions. The IRoA's UHC service coverage index for essential health services, based on tracer interventions that include reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases and service capacity and access is 37 out of 100 (WHO, 2018). The quality of health care remains still a major concern. The lack of quality of health care is one of the barriers for the successful implementation of user fees and a Health Insurance scheme. Good quality can incentivize users to pay for health services and participate in health insurance. Evidence suggests that the quality of health services is often poor. Of all Basic Health Centers (BHCs), 17% were not able to provide even half of the required services recommended for maternal, newborn, and child health (WHO, 2015). Similarly, around 19% of health facilities do not have the necessary medical equipment available and over one-third of facility buildings do not meet quality requirements (WHO, 2015). The ability of the population of Afghanistan to pay for health services is a big concern. About 54,5% of population is below the national poverty line. There is no pooling mechanism such as Health Insurance to protect the people of Afghanistan from catastrophic health expenditures.

4.4. Health workforce

There is a shortage and uneven distribution of qualified health workers. Afghanistan had 1.9 physicians, per 10,000 people in 2017, which is considerably low and the number of nurses and midwives is 3.2 per 10 000 population (WHO, 2019). Only 28% of the health workforce is female, which is a concern in a context with high maternal mortality rate and where women tend to be more comfortable with female staff. The workforce is also distributed unequally between rural and urban areas. In 2018, 75% of doctors served in an urban area (Engineer, et al., 2016) (Alonge, Lin, Igusa, & Peters, 2017).

4.5. Health information system

There are Health Management and Information Systems (HMIS) and Expenditure Management Information System (EMIS) that are planned to support MoPH in the monitoring of financial and health sector output and performance indicators. The EMIS has been employed to systematically monitor HF expenditure flow, while HMIS is deployed to track health output data such as utilization of health service. However, these systems are not able to provide real-time relevant information, and decision makers are forced to wait even a few days until they get relevant information.

4.6. Quality of health care

Decades of conflict had previously ravaged the national health system of Afghanistan when the government decided to begin reconstruction in 2003. A national health survey in 2002 found that only 9% of the population had access to health services and that about 40% of health facilities had no female staff, limiting the access of women to health. While access to health had significantly improved, there were still concerns about care quality. In 2009, the MoPH decided to implement efforts that would enable better quality of health care, as well as build capacity. The MoPH instituted a new IQHC unit in order to encourage and operate activities designed to achieve high quality services, coordinate existing quality programs, monitor their efficacy and the strategic commissioning of further work. In 2010, a year-long consultative process led to the development of a National Strategy for Improving Quality in Health Care, which consisted of a strategy implementation framework and a five-year operational plan. The Strategy was completed in August 2011 and launched in six major cities. The most vital accomplishments of the Strategy are: 1) Achieving a standardized definition of quality: "a quality health care system is client-centered, equitable, available, appropriate, safe, consistent, effective, timely and efficient; it continuously improves"; the consensus of parties involved in developing the Strategy was that all significant aspects of quality need to be included so that actions can be guided toward achieving a broader sense

of quality in the longer term, but starting with easier interventions which might have high potential impact. 2) Defined strategic objectives, the first set of which includes: a) improving patient safety, b) providing client centered services, c) strengthening the data recording and reporting systems, d) improving clinical practices and e) building the capacity of the system so that it can continuously improve. 3) A strategy operational framework and a detailed five-year plan. 4) A measurement and data collection strategy that defines the dimensions of quality and its indicators. 5) Integration of the Strategy into revised vital MoPH documents and 6) Routine assessment of performance.

4.7. Essential medicines

One of the key concerns of the MoPH is access to essential drugs through basic, secondary, and tertiary health services. Geographic constrictions and security problems are influencing suitable utilization and access to essential medicines. The major issues for the health system are both in the quality and quantity of essential medicines. The local market is one of the main suppliers for essential medicine, which provides medicines to private pharmacies, as well as BPHS and EPHS implementing NGOs. The available literature suggests that 70% of the country's medicines needs are provided via the private sector with the remainder being supplied by the 100% publicly funded essential medicine BPHS/EPHS scheme where 90% funded by IDC with the Afghanistan Ministry of Finance contributing the balance (Harper & Strote, 2011) The majority of essential medicines are imported from neighboring countries. Antimicrobial resistance is a growing concern with self-medication, inappropriate use and low quality of medicine being the most contributing factors to the situation. There is a section of the population which uses traditional medicine, as it is cheaper and more accessible to them. In 2016, the government established the National Medicine and Health Products Regulatory Authority (NMHRA) which is responsible for the regulation of medicines, medical devices, vaccines, diagnostics, and other health products. The NMHRA is working towards bolstering medicine control practices and quality. The current health spending per capita in 2017 remains low at 81 USD where 75.5% of total health expenditures are OOP health expenditures and 10% of OOP health expenditure were incurred abroad; household expenditures on medicines and diagnostics were estimated at 47% and 35% respectively in 2017 (MoPH, 2019). Several studies elaborated challenges that Afghanistan has been facing in the availability and quality of medicines. In 2014, the Public Expenditures Tracking Survey (PETS) highlighted delays in budget release to health facilities on a secondary and tertiary level. This causes shortages of medicines and increases OOP.

A 2009 study found that there was a significant variation in stock-outs for primary health facilities (average stock-out of 7 days per month) and hospitals (average 9 days) (Green, Omari, Anwari, Noorzaee, & Siddiqui, 2009). As a result, patients are often forced to turn to the private sector for their drug needs. Purchases of pharmaceuticals and medical goods represent 57% of total household health expenditure (MoPH, Afghanistan National Health Accounts with Disease Accounts, 2017, 2019). The evidence of drug prescription practices is mixed. A study by the United States Agency for International Development (USAID) found that generic drugs accounted for very high proportions of prescribed drugs in primary health care facilities and hospitals and the national essential drugs list was followed almost exclusively (Green, Omari, Anwari, Noorzaee, & Siddiqui, 2009). The study also identified overuse of antibiotics: 58% of patients received antibiotics in primary health care facilities (90% in hospitals). A WHO study of 35 countries found that an average of 45% (range 22-77%) of patient visits included a prescription of a drug (WHO, 2004). The evidence on the quality of medicines is also mixed. A 2011 study of public and licensed private facilities found that 89% of drugs in public facilities and 92% of drugs in private facilities were compliant with international standards (Karwar, et al., 2011). However, the fact that many individuals purchasing drugs from unlicensed vendors is a significant problem since there is no quality control of drugs in those outlets (MoPH & WHO, 2011), (Harper & Strote, 2011).

The public Basic and Essential Packages of Health Services medicines budget is around 4 USD per capita per year and it is estimated that an average of 20% of the BPHS/EPHS budget across all donors is spent on medicines, although there is a wide variation in per capita medicines expenditure between provinces and between donors as a result of variations in

medicines financing policies between the donors and which are not centrally coordinated (Harper & Strote, 2011).

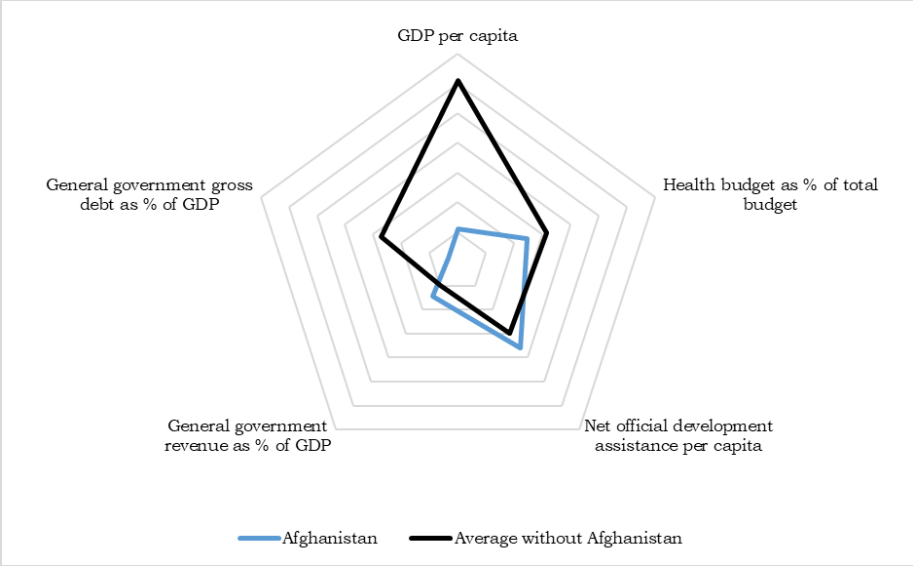
4.8. Governance

The unstable political situation affects the capacity to implement policy reforms and deliver social services. Despite progress, there are still considerable constraints to development due to political instability, which makes policy making harder, slows the economic recovery and poverty reduction, and has contributed to increased emigration in the recent year. The security situation is still considered to be unpredictable, which affects the functioning of the state and the provision of social and health services. The MoPH has developed the National Costed Health Strategy 2016-2020 which outlines the main health priorities such as: governance, institutional development, public health, health services, human resources for health and information management. The governance structure is designed to promote a more inclusive system determined by local needs, but capacity varies leading to mixed results. Financial autonomy has been piloted in some facilities (USAID, 2015). Stewardship of the health system is improving as capacity is increased at the central level. The central government is focusing on increasing transparency and accountability, especially on management of financial resources, supported by tools like AFMIS (Afghanistan Financial Management Information System) or EMIS (Expenditure Management Information System). However, these systems aren't fully operational and there is a certain lag in providing real time information to support the decision-making process. It appears that financial autonomy of public health facilities is very limited, which might lead to inefficiencies and a lack of motivation of hospital management to expand the scope and quality of healthcare.

5. Main Findings: Macroeconomic Prospect and Fiscal Space

Figure 1. shows that Afghanistan's economic development is far below the countries in the neighborhood which is a strong argument for the international community to support GIRoA in their efforts to strengthen the health system. The share of health budget out of total government budget is lower compared to neighboring countries, which can be explained by high donor financial engagement. Thus, there is a need for stronger collaboration and development synergies between MoPH and donors to establish one plan and discuss government budget allocation to health sectors. Very low debt as share of GDP gives more fiscal room for manoeuvre to GIRoA, and improvement in political and security situations might bring more investment trust which will ensure more investments and higher economic growth. The radar graph below shows that Afghanistan is able to extract more revenues from GDP comparing with neighboring countries which still can be significantly improved.

Figure 1. Macroeconomic and Health Fiscal Space Indicators, 2018

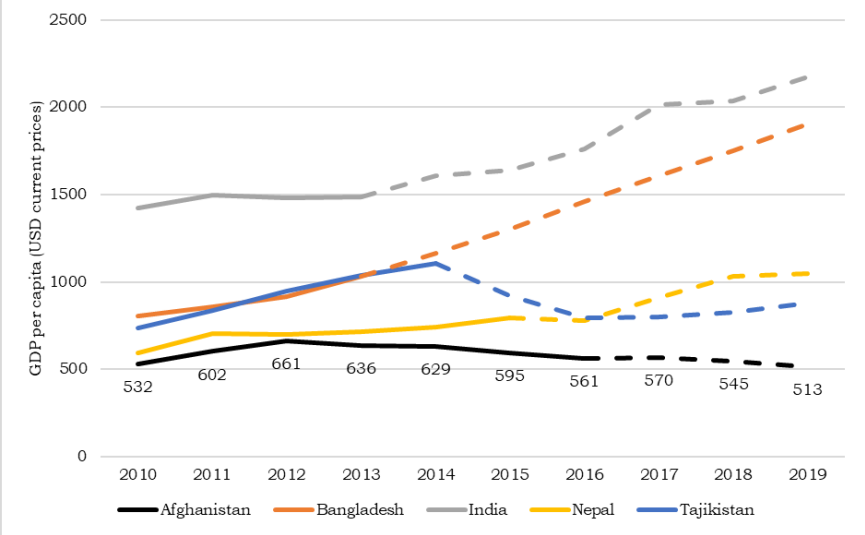


Source: MoF, IMF- WEO October 2019
Note: Reference group average includes following countries Nepal, Bangladesh, Turkmenistan, Sri Lanka and Kyrgyz Republic

5.1. Economic growth

Annual GDP growth in Afghanistan varied from 5% to 2.7% between 2013 and 2018 (IMF, World Economic Outlook - October, 2019a). With the very low start off point, even with these growth rates, Afghanistan continues to be one of the poorest countries in the region with GDP per capita of USD 513 in 2019 (Figure 2.). GDP level of growth declined each year from 2014 to 2018. According to the IMF, this stagnation is not only because of the irresolute security and political situations, but also due to unfavorable weather conditions that reduced agricultural production. The IMF projected national economic indicators in October 2019 but due to uncertain effects of COVID 19 on global and national economic development a new update in April 2020 has showed just selected number of economic indicators projected up to 2021.

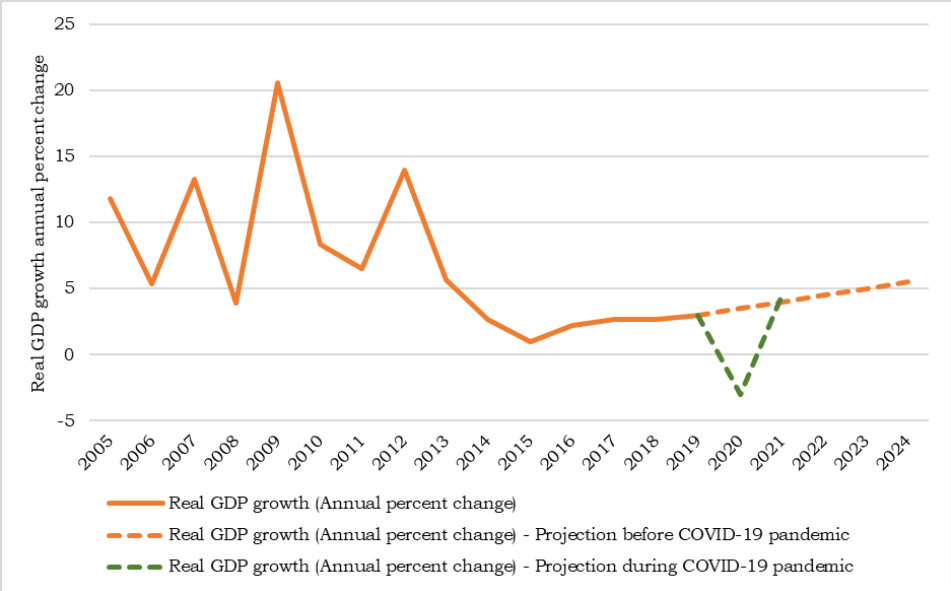
Figure 2. Gross domestic product per capita, 2010-2019



Source: IMF- WEO, October 2019

The approximate population of Afghanistan in 2019 was 38.5 million people, with forecasts that this number will reach 50 million by 2040 (UN, 2019). This population growth, together with low economic growth predictions could place downward pressure on GDP per capita. In order to increase it, economic growth rates require being higher than the forecasted yearly population expansion. In 2019, Afghanistan has recorded a growth rate of 3% (Figure 3.), compared to 2.7% in 2018. GDP growth rate for 2019 is predominantly driven by an increase in the second sector of industrial production as well as an improvement in agriculture production. The government is disbursing the development budget in large measures, leading to more economic activities due to a higher demand for construction, gas and water.
The annual GDP growth is expected to decrease (Figure 3.), from 2019 to -3% in 2020 and increase to 4.5 % in 2021 (IMF, World Economic Outlook - April, 2020). Previous IMF projection in October 2019 has suggested that from 2022, higher growth rates are anticipated as a result of increased productivity and extraction of natural resources, particularly the mining sector has the ability to attract foreign investment and better the economic situation. It is expected that the recently signed peace agreement between Talibans and USA with support of GIRoA will contribute to a faster economic recovery. On other hand, we are today fully aware that there will be negative effect of COVID 19 pandemic on economic growth and GIRoA's fiscal position. This scenario is susceptible to the political and security situation in the country. With a deterioration of the security situation costs will rise and investment rates will decline.

Figure 3. Real GDP growth, GIRoA, 2005-2024



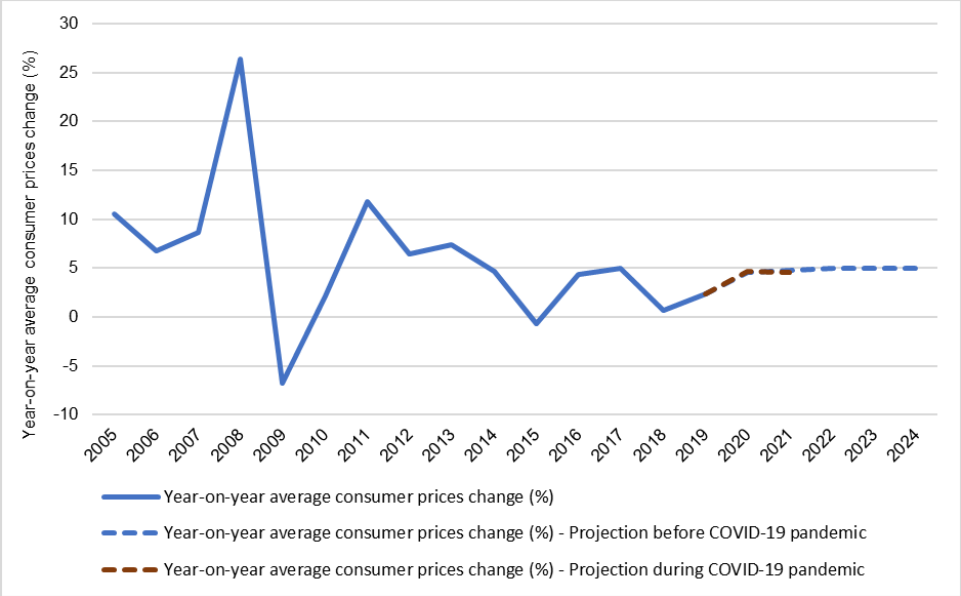
Source: IMF - WEO October 2019 and April 2020

5.2. Inflation

As measured by the consumer price index (CPI), general inflation has decreased vitally since 2005, with the country reaching negative inflation figures twice, in 2009 and 2015. Since then, the CPI has shown a slow consistent growth but with the numbers almost reaching zero percent again in 2018 (IMF, World Economic Outlook - October, 2019a). The estimated growth is to return to a positive trend, in line with a slow economic recovery. With all other things being equal, the impact of a lower general inflation than inflation of healthcare services and goods should produce a decrease of fiscal space for health in the national currency, as the government would be unable to purchase the same amount of health services and goods

with the same amount of money. In order to uphold the current level of real government spending in the health sector, there exists a requirement to expand fiscal space for health, as the costs for health goods and services are still expected to grow at a higher rate than general inflation in the coming years. New projections made by IMF in April 2020 presented in the newest World Economic Outlook suggest that CPI won't fluctuate a lot from projections made in October 2019. In 2020 it will be 4.7% and in 2021 it will be 4.5% (Figure 4.).

Figure 4. Consumer price index, 2005-2024

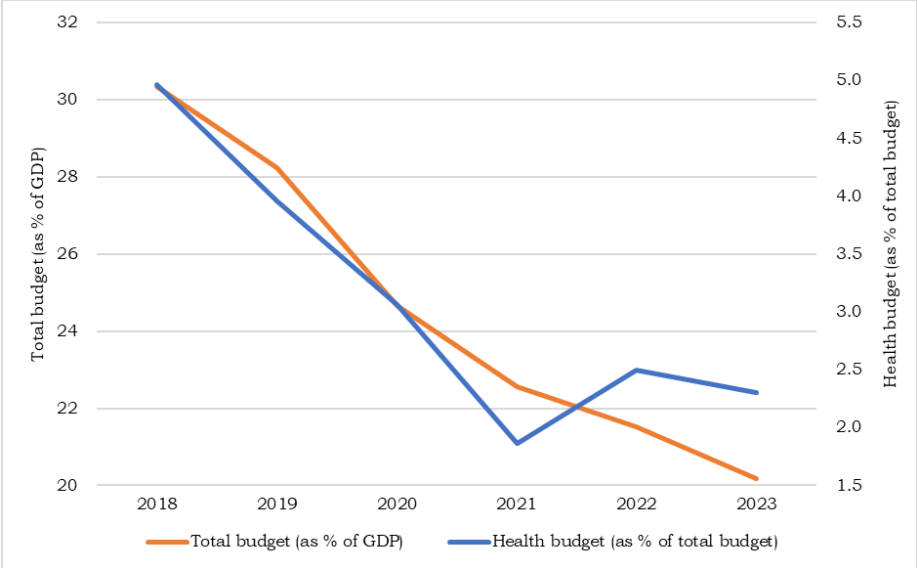


Source: IMF - WEO October 2019 and April 2020

5.3. Government Revenues for Health

Domestic revenues increased from 8.7% of GDP in 2014 to 9.3% of GDP in 2017, largely driven by improved tax policy reforms, arrears collection, and administration (World Bank, 2019a). The share of domestic revenue is still at the lower range of low-income countries (Gottret & Schieber, 2006). Customs duties are 35.2% of tax revenue in 2017. Taxes accounted for 48.7% of domestic revenues in 2015, followed by non-tax revenues (26.5%) and customs duties (24.9%) (World Bank, 2016). The introduction of a value-added tax (VAT) has been postponed as authorities and the IMF are working to strengthen revenue administration and governance before introducing the VAT (IMF, 2016). The investment climate can be described as somewhat bleak, as there is nearly zero (as % of GDP) foreign direct investment in the country (World Bank, Global Economic Prospect, 2020). The total budget for the fiscal 2019 year is estimated to be 424 billion AFN, which represents 28% of GDP (MoF, 2019). Meanwhile, the operating budget used to finance government operations is about 70% at the midterm review. The operating budget for 2019 fiscal year after the review is AFN 297 billion, and the development budget is 127 billion AFN, organized in accord with government priorities, financial resources, and spending of budgetary units. If overall government expenditure is limited and lower than 30-35% of GDP (an upper bound for most low-income countries) and if 15% or lower of government budget is spent on health (also an upper bound) then it is highly unlikely that government health spending would ever exceed 4.5-5% of GDP.

Figure 5. Health Government budget, MoF



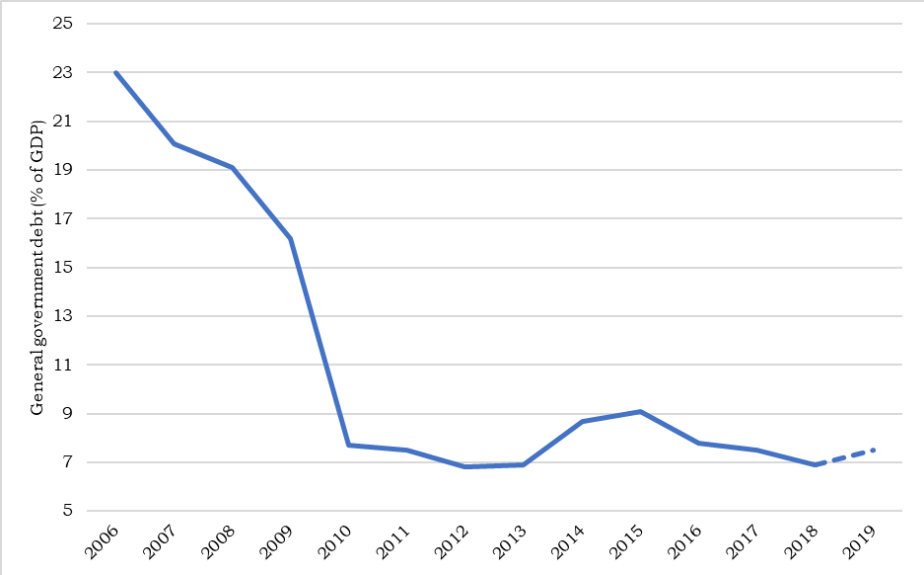
Source: MoF, March 2020

From the MoF projections above (Figure 5), we can observe that the percentage of the health budget, as part of the total government budget is decreasing up to 2021. Projection states that in 2021, it will reach a level lower than 2%, only after which it will begin to increase. The total budget, as percentage of GDP is also in decline, with a projected decline as well until 2023.

5.4. Debt and fiscal balance

General government debt, as a percentage of GDP, had a sharp decline in the period 2006 to 2010, from 23 to 7.7 (Figure 6.). From then, it remains constant, with small differentiations from 6.8 in 2012 to 9.1 in 2015. Afterwards, the trend remains downwards. The current situation is that public debt remains low, at around 7.5% of GDP in 2019.

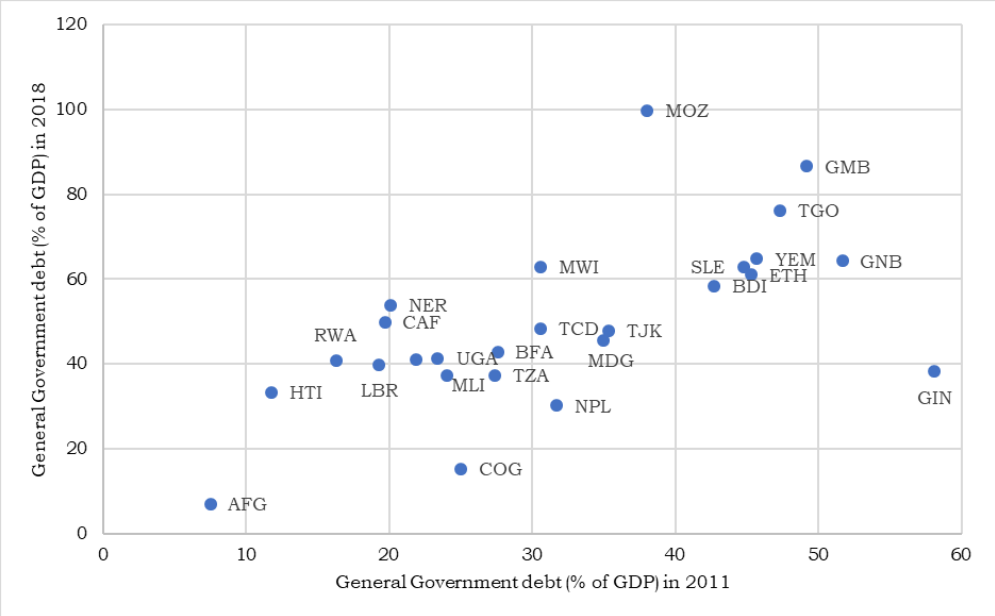
Figure 6. General government debt (% of GDP), 2006-2019



Source: IMF – WEO October 2019

The government debt increases mostly as a result of government spending, and decreases from taxes, both of which fluctuate over the course of a fiscal year. A higher debt to GDP ratio is acceptable when an economy is rapidly growing because its future earnings will be able to pay off the debt more quickly (Figure 7.). In the case of Afghanistan, the very low government debt level is also due to an unfavorable investment climate in the country, due to its very fragile security situation. However, as security situation improves, we can expect higher government debt as share of GDP. Even with low levels of debt, the country is viewed as high risk of external debt distress by the World Bank and IMF, mostly due to its high dependence on grant financing. As a reflection of instability, credit to the private sector declined by 4% in 2018, and now equates to just 3% of GDP.

Figure 7. General government debt (% of GDP), low-income countries



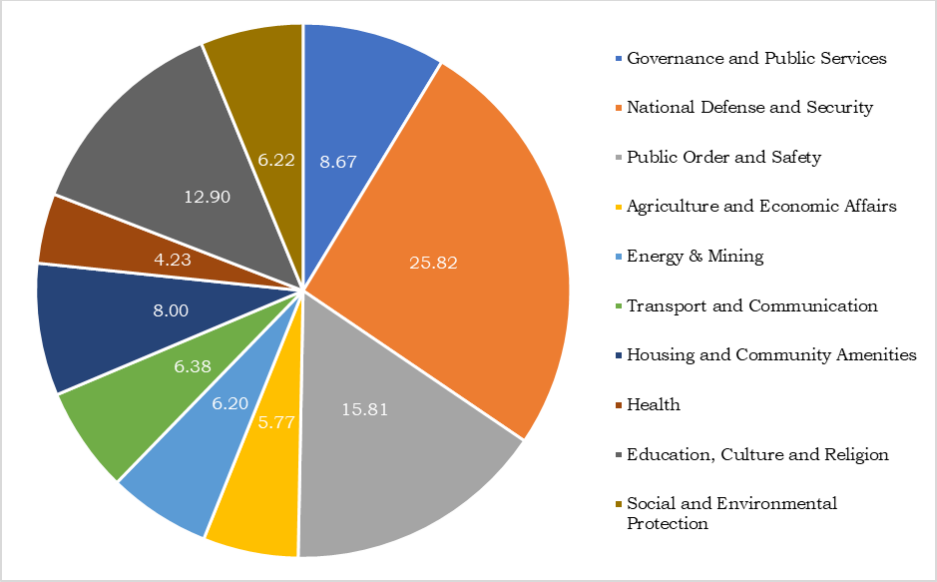
Source: IMF, World Bank, March 2020
Note: Graph includes 26 low income countries.

6. Re-prioritization of health

Fiscal space for health depends not only on the overall government budget constraint, but also on the priority assigned to health. There is notable potential to increase fiscal space through the re-prioritization of the health sector in the government budget. However, at this moment we don't see clear intentions of the MoF to increase fiscal space for health. The Afghanistan National Development Strategy (ANDS) 2008-2013, included health as a political priority. But, when looking at the level of government allocation to the health sector, it appears that this goal was not fulfilled, as the spending on health is quite low. Government health spending of about 4% is much lower than international recommendations of 8% of total government expenditure as recommended by the WHO EMRO with a projected tendency by the MoF to become even lower in the following years. Good budgeting is supported by, and in turn supports, the various pillars of modern public governance: integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Public finance experts assign three main functions to a good budgeting process: (i) supervision and control of public finance in order to guarantee their long term sustainability; (ii) allocative efficiency, which means being able to structure the budget in

accordance to the priorities of the government and the objectives of the public policies; (iii) operational efficiency, which implies optimization in the use of available resources (Schick & the OECD Senior Budget Officials, 2009).

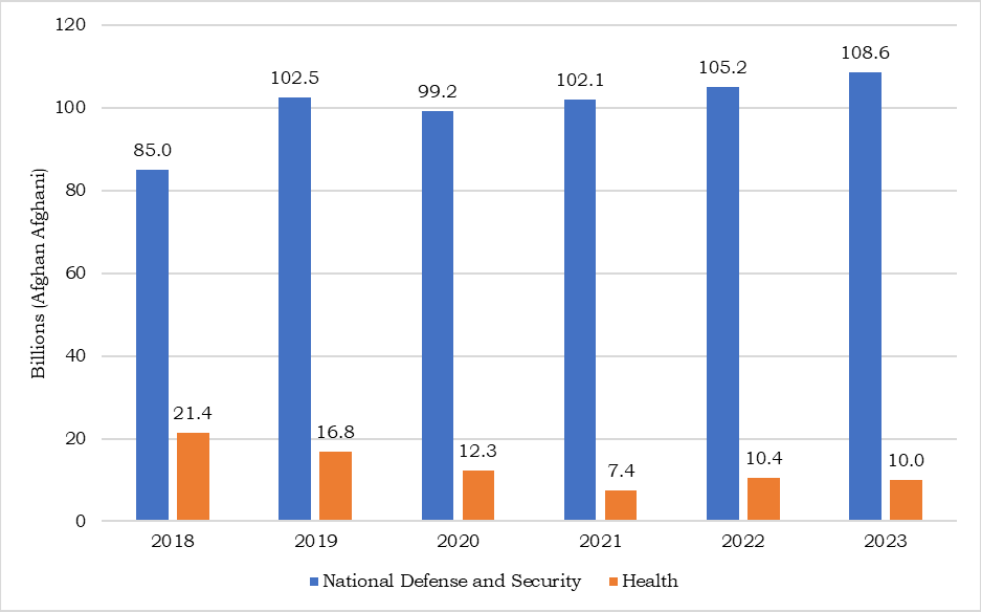
Figure 8. MoF Budget by sector, 2019 (% of total budget)



Source: MoF, Feb 2020

As it can be seen from the 2019 budget distribution (Figure 8.), the health sector is receiving the least funding from the MoF, with only 4.23% of total budget. As of 2019, a significant portion of the budget is spent on security (over AFN 102 billion), while only AFN 16.8 billion is allocated to health (Figure 9.). According to the MoF projections, this trend is going to continue, with the health sector being allocated even less funding.

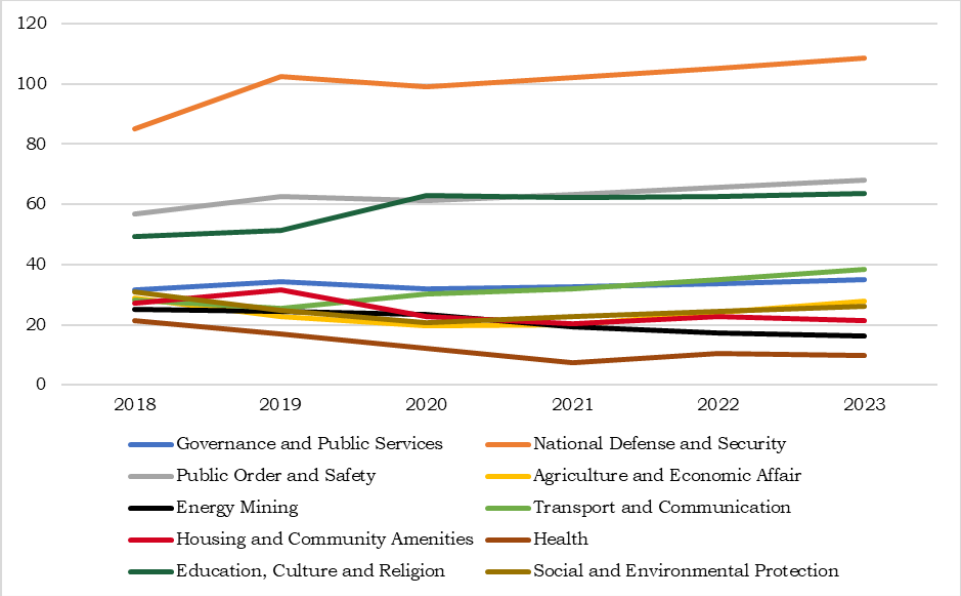
Figure 9. Defense and Health budget, MoF



Source: MoF, March 2020

From the following MoF projections, we can see that the MoF is projecting by far the least amount of funding for health while increasing National Defense and Security Budget. As a Peace Agreement has been signed recently, this may alter the projected numbers greatly in favor of the health sector.

Figure 10. MoF Budget by sector



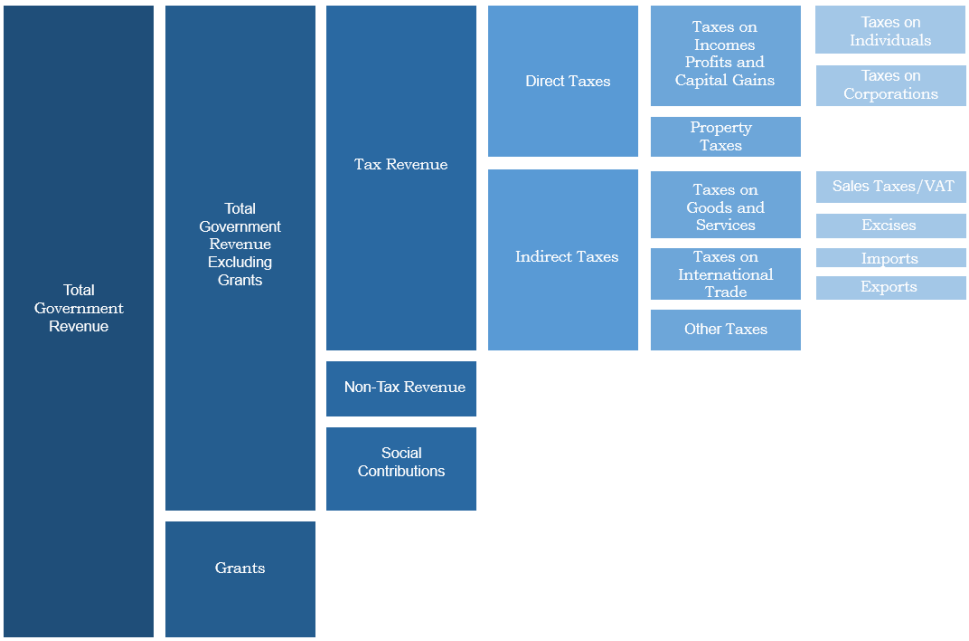
Source: MoF, Feb 2020

The trend of GIRoA's budget by sector is presented in local currency in Figure 10. The overall government budget has a tendency of decline from 2019 to 2021 combined with inflation and a declining relation to USD, and harmful effects of COVID 19 represents a serious reduction. National defense and security as well as Public order and safety remain prioritized in this budget and its projections, reaching over AFN 176 billion together in 2023 and with just 9.9 billion prioritized for health.

7. Health sector specific resources: Where we are now?

The national budget of Afghanistan reflects the government's real development priorities, and how it intends to achieve them. In the context of Afghanistan, it is reasonable that National Defense and Security sectors are prioritized. According to the most recent estimates from the International Centre for Tax and Development, tax revenues account for more than 80 per cent of total government revenue in about half of the countries in the world (Ortiz, Chowdhury, Valverde, Muzaffar, & Urban, 2019). Figure 11. represents the conceptual classification of revenues other than debt. As can be seen, government revenues include grants, direct taxes, indirect taxes, and social contributions. Tax constitutes the largest component of government revenue (Prichard, Cobham, & Goodall, 2014).

Figure 11. Classification of different sources of government revenues



Source: Fiscal space for social and health protection, 2019

Earmarked taxes or a form of health insurance may represent an additional source of fiscal space for the health sector and increase financing for health. When it comes to earmarking, there are several options: an entire tax can be set aside to fund a specific health programme, or a portion of a tax can be allocated for it. In cases where health spending is low, an earmarked tax can be perceived as a means to isolate and incentivize health spending from other competing publicly funded actions. When looking at the situation from an economic viewpoint, earmarking is often seen as an unwarranted restriction on fiscal policy making, which can reduce flexibility and allocative efficiency. However, from the fiscal position of the health sector in Afghanistan this option is highly recommended, especially if earmarked taxes come from tobacco tax sources. Domestic financing of the health sector is essential in achieving sustainable health care for low income countries. It is estimated that a low-income country needs an investment of USD 86 per capita (Stenberg, et al., 2017) to achieve the health SDGs as well as provide critical access to healthcare for its population. The current domestic health expenditure per capita is USD 55, which is 36% under the recommended number and the MoPH needs to ensure that this number is increased over time through not only the support of the international community but also a raise in domestic revenues. The MoPH has developed the Revenue Generation Strategic Framework 2018 as a step in increasing domestic revenues and thus relying less on donor contributions as well as increasing government funding, so that the high OOP health spending in the country is reduced. The proposed strategies should result in USD 192,5 million per year earmarked for health requirements. The percentage of GDP collected through general taxation is below the average of low-income countries at 11% of total GDP revenue, according to IMF. The average in other low income countries is 18%, in middle income countries 23% and high income countries it is at 32% (Gottret & Schieber, 2006). This suggests that there is still room for improvement for the taxation system. The RGSF includes the following approaches: imposing excise tax on tobacco, vehicles, fuel, sugar sweetened beverages, and introducing user fees at secondary and tertiary health services as well as the introduction of social health insurance schemes.

Excise tax on tobacco

Assuming that levying a 50% excise tax on the selling price of cigarettes and tobacco products will bring in an additional USD 94.9 million per year, the excise tax will be collected by the MoF and according to the RGSF, it will be fully designated for the health sector. Gambia changed the base for its excise tax on cigarettes from weight to volume in 2012. Evidence shows that basing taxes on weight of tobacco encourages the industry to produce lighter – but not less harmful – cigarettes to pay less taxes. So, in 2013, Gambia also raised the excise on all tobacco products to the same rate. This has the benefit of discouraging consumers from switching to a cheaper product when taxes are increased (WHO, 2014).

Vehicle tax

Road accidents have become a major public threat. In 2017, WHO reported 5,461 road accident deaths and 25,654 road accident injuries in Afghanistan (WHO, 2017). The MoPH reported a 46 percent increase in traffic injuries between 2007 and 2017 (MoPH, 2017). The proposed revenue from a new vehicle taxation scheme is USD 23,25 million annually, by taxing the import of vehicles and road permit renewals. According for the RGSF, this money should help the MoPH have a source of very predictable revenue to treat healthcare costs associated with increased traffic related injuries.

Fuel tax

Traffic pollution is a rising health concern in Afghanistan. The incidence of noncommunicable diseases in Afghanistan is on the rise. Between 2009 and 2010, the reported cases of pulmonary disease increased from 11,340 to 12,350. Applying AFN 1 sin tax per liter of gasoline on final consumer price, with 100 percent of tax allocated to health sector would generate USD 20,6 million of revenues annually (MoPH, Revenue Generation Strategic Framework for the Health Sector, 2018).

User fees

While the primary health care services will remain free in this proposal, patients who seem primary care at national hospitals will be charged a flat fee in order to discourage them from seeking primary care at the national hospital level and decrease the number of unnecessary consultations. The lost revenue due to poor exemptions would be financed by the government through health equity or other subsidies. Introducing a user fee of AFN 20 per outpatient visit and AFN 200 per inpatient admission on secondary and tertiary health care services a USD 11.3 million would be generated annually (MoPH, Revenue Generation Strategic Framework for the Health Sector, 2018).

Health insurance

The Second phase of feasibility study has evaluated willingness to pay (WTP) and how interested the population would be in participating in a national health insurance scheme and how much people might be willing to contribute financially. It also focused on defining and costing benefit packages for health insurance in Afghanistan. These costs should be used for an actuarial analysis to provide information on the financial feasibility of each package option and explored further cost-containment strategies. The financial projections of total costs for different health insurance scenarios shows that despite the contributions of beneficiaries through the payment of premiums and potentially copayments the health insurance schemes with comprehensive benefit packages would require substantial subsidies from the government or other sources. The estimated revenues from health insurance are defined as the sum of the premiums collected from those enrolled in the insurance scheme. The phase two health insurance feasibility study identifies the best practical model and estimated revenue generation at amount of USD 38.8 million annually (MoPH, Revenue Generation Strategic Framework for the Health Sector, 2018).

Sugar sweetened beverages

According to 20% additional sin tax on the price of SSBs would be able to bring in an estimate of USD 2.4 million annually (MoPH, Revenue Generation Strategic Framework for the Health Sector, 2018).

VAT

IMF study in lower-income countries has estimated that where VAT performance is weakest, base broadening and improved compliance might raise something in the order of an additional 2 per cent of GDP (Ortiz, Chowdhury, Valverde, Muzaffar, & Urban, 2019). The same study also concluded that the scope to raise revenue "by simply raising standard VAT rates is becoming limited, so the potential lies largely in better improving compliance and scaling back preferential treatments" (IMF, 2011). The WTO Agreement requires the Government to eliminate fixed taxes on imports, but also to implement VAT on imports prior to 01 January 2021. There is a chance that the infrastructure meant to administer VAT would not be able to support it, so the GIRoA has made an agreement with the IMF to begin the implementation of VAT by January 2021. A VAT rate of 10% is expected to bring an additional 1.9% of GDP. It remains to be seen whether a portion of this would be allocated for health purposes (IMF, 2019b).

Advocacy

The GIRoA and MoPH in particular has made continuous efforts in advocacy for increasing the financing of the health sector by the government. The main focuses of advocacy are: increased allocation of government funds to health, earmarked taxes for health, optimization of user fees at hospitals and introduction of health insurance. However, the lack of laws and regulation, government support and consensus between in-country stakeholders prevent MoPH to progress more in this area.

Table 1. Summary of revenue generation streams

Source of potential revenue for health	Status
Tobacco Tax	There is a lack of political willingness of MoF and other top government authorities to support the implementation of these earmarked taxations.
Vehicle Tax	
Fuel Tax	
Sugar-Sweetened Beverages	
User Fees	Small user fees are implemented at secondary and tertiary health care levels with limited financial autonomy of public health facility to manage these funds. Thus, the health sector for the time being doesn't benefit from collection of user fees.
Health Insurance	Two feasibility studies have been conducted to support the development of health insurance (HI). However, the process of HI development could benefit from stronger support from government and other in-country stakeholders to mitigate barriers for establishment of HI.
MoPH's Domestic Revenues	There are no clear indications from the MoF to increase domestic revenues for health.
VAT	The introduction of a value-added tax (VAT) has been postponed because

	government authorities and the IMF are working to strengthen revenue administration and governance before introducing it. There are no clear indications when this process can be continued.

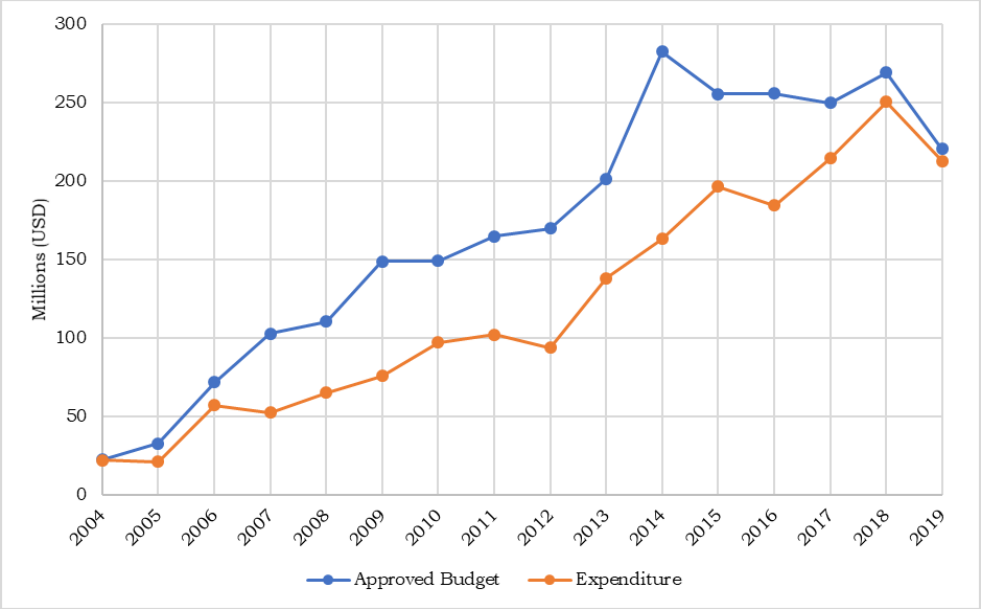
8. Health sector specific Grants and Foreign aid

While Afghanistan remains a major recipient of the world's humanitarian aid budget, the trend is a declining one and it is projected to be so in the medium to long term. The current amount of international aid per capita is USD 105 (World Bank, 2019a), which is down from USD 148 in 2014. Foreign grants are predicted to decline, which is why re-prioritization of health within the government system is a priority. The medium to long term predictions of foreign assistance don't appear to provide much scope for increasing fiscal space for health. Due to COVID 19 and other external factors it is difficult to predict any possible future commitments of donors dedicated solely to health, depending on the situation in the country as well as political or economic factors in the donors' countries. Due to the COVID-19 pandemic, the IMF has projected that GIRoA's GDP growth will decrease from 3% in 2019 to -3% in 2020. This is a very challenging situation given the health system's dependency on foreign aid.

9. Efficiency

Fiscal space can be gained from more efficient use of current and future financial resources, and the examination of technical and allocative efficiencies. The World Health Report 2010 estimated that 20-40% of all health spending is wasted through inefficiencies (WHO, 2010). It identified 10 major causes of inefficiency in the health sector. Transparency and accountability may be a source of fiscal space, even though their improvement is a lengthy and complicated process. Corruption in the country is a major stumbling block, with Transparency International ranking Afghanistan 166th of 168 countries on its World Corruption Perceptions Index (MoPH) in 2015. The MoPH, in its 2016-2020 strategy has clearly marked this and good governance as a priority issue. The budget absorption capacity of MoPH was 96.5% in 2019, out of these funds almost everything goes to salaries of staff in public hospitals and MoPH staff (Figure 12). The health sector's execution rate of the development budget for 2019 is 92.9% (MoF, 2020), which means there is not much room for fiscal space within this area. Decentralization of hospitals has been on the agenda of the MoPH for several years now. It can, nevertheless, be an area where fiscal space can be gained if operational capacities and legal requirements are fulfilled. At the moment, health facilities have limited autonomy, where funds are disbursed per the line item of budget. The introduction of health insurance in Afghanistan is a recommendation of the latest Revenue Generation Strategic Framework. While it is deemed that health insurance is needed in order to lessen the population's OOP and increase efficiency of the health care system, the perception is that there is still not enough political and legal will in developing it. When the system is in place, it can provide a significant amount of fiscal space for health, especially as in time the purchasing power of the population increases. Strategic purchasing and procurement in the health system is an issue, due to low capacity levels at many health facilities. The MoPH is responsible for procurement due to a lack of a tracking system that would provide transparent insight into local procurements. Additionally, a limited number of suppliers with negotiated prices of goods for both medicines and equipment affects the efficiency of procurement processes.

Figure 12. GIRoA MoPH Budget and Expenditures, 2005-2019



Source: MoPH, Feb 2020

9.1. Technical efficiency

The Health Center Study Efficiency Analyses for BPHS and District Hospital Study Efficiency Analysis for EPHS have been conducted to assess inpatient and outpatient services and better understand where resource gaps exist and how more cost-efficient services can be delivered. Finding out such information is vital to making informed recommendations for health care reforms and introduction of IPEHS. The healthcare services introduced in BPHS, EPHS and IPEHS are fully costed. It will also be useful in the implementation of the Hospital Sector Strategy, whose goal is to increase hospital autonomy with regards to their resources, as well as improve the quality of its services to examine the variation of performance of service delivery focusing on BPHS and EPHS in Basic (BHC), Comprehensive (CHC) and Sub Health Centres (SHC) and identified factors in determining the efficiency to enhance the value for money in using MoPH resources. In total, 272 CHCs, 571 BHCs and 420 SHCs were included in the analysis. The study showed high average efficiency score for CHCs was 90%. However, the average efficiency scores for BHC and SHC were 78.7% and 73 %, respectively, suggesting that there is a room for potential efficiency gains. Similarly, the District Hospital Efficiency Study Analysis was conducted in 56 District Hospitals in 2018 to assess the technical efficiency of District Hospitals. The result showed that assessed District Hospitals have high technical efficiency estimated in average at 0.95 (Blaakman, Salehi, & Boitard, 2014). Despite the progress in improving the overall health status, inequality and inequity of use of health care have been an increasing concern in Afghanistan. There is limited evidence of the efficiency of primary health care facilities. A data envelopment analysis (DEA) model is used on the primary data shows that the level of the health facilities and the productive efficiency are not linearly related – the lowest level facilities are quite evenly distributed in the range of efficiency score (Pavitra, 2013). A call for a better understanding of the health facility and specific management processes and the geography specific healthcare demand situation for better policy decisions in the distribution of health facilities for the country is needed.

There is evidence for better pooling arrangements and this should be strengthened. In the most recent Health Financing Strategies (HFS) 2014-2018 and HFS 2019-2023, the Ministry of Public Health has encouraged the transition from fragmented pooling to mitigate health system inefficacy and reduction of high-level OOPs through introduction of prepayment arrangement. The Afghanistan Reconstruction fund (ARTF) administered by the World Bank is a pool of funds from several donors to be potentially used as support funding for the development of prepayment mechanisms. This has been deemed as a good start for

establishing large-scale pools. The MoPH has been supporting the core Global Funding Faculty (GFF) initiative through better alignment of off budget donor support, increasing domestic revenue generation, and improving efficiency in pooling.
There is limited capacity to ensure that resources are used in the most effective manner. The Health Center Efficiency Study in 2018 was conducted to assess the variation of performance of service delivery but the study didn't separate health services financed by donor and government budgets. Since it is very difficult to make a clear separation between various interventions financed from the budget and off budget, it is hard to assess whether resources are being put to their most effective use. Multiple management costs are certainly a cause of inefficiency if not incoherence. In order to mitigate any inefficiency, the MoPH with in-country stakeholders have initiated the creation of off budget mapping, an initiative to develop a joint plan of action and align and coordinate donor and government investment in health. In addition, the MoPH is tracking off budget resources to make sure they are spent to expand the coverage of basic and essential health services and reduce inequity and inefficiency.
There is a need to align incentives and to ensure their proper communication to ensure appropriate provider behaviour and quality of care. In Afghanistan, performance bonuses to health workers were provided centrally through contracted NGOs who in turn delivered these payments to health facilities as additional funds to their operational budget. Some health workers were in fact not aware that performance bonuses were included as part of their health facility operational budget and monthly salaries. The managing NGOs also had significant autonomy in deciding how the performance bonus was spent and distributed among their employees (Engineer, et al., 2016). Given the way incentives were provided to health facilities and the heterogeneity in allocating bonuses, it is possible that some individual health workers who deserve the rewards and whose extrinsic motivation is critical for improving health services performance at a facility may not have received any bonus (Dale, 2014; Van Herck, et al., 2010).

9.2. Allocative efficiency

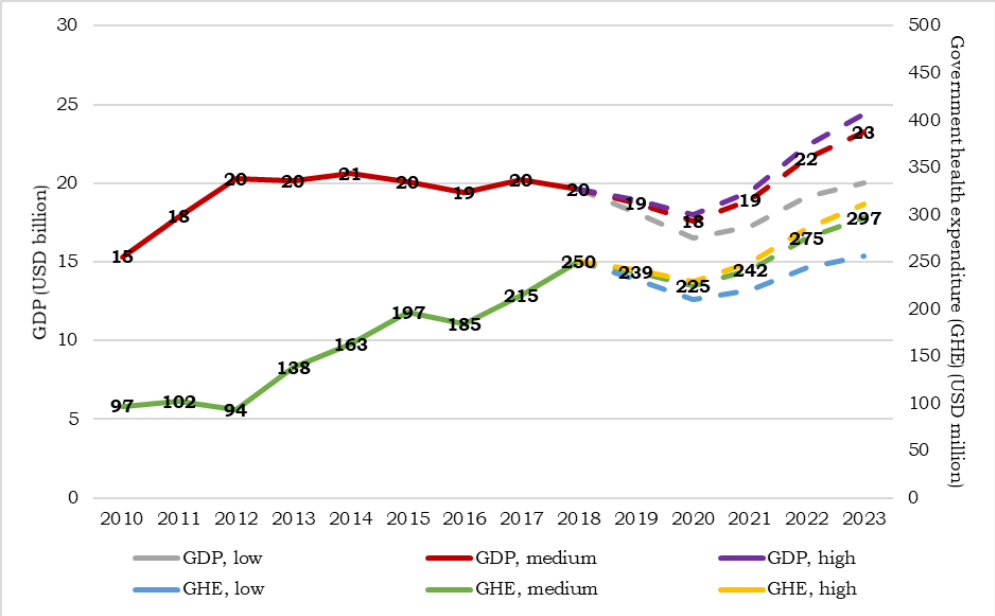
There is a potential need for revisiting allocative efficiency, specifically in the purchase of pharmaceuticals. There are discussions on pooled procurement of pharmaceuticals, however not much has been possible due to conflicting ideas at the higher level of the government and the priorities pushed by the donors most importantly the World Bank that promote purchase of pharmaceuticals from the local market, which might not necessarily be observing sufficient efficiency and quality. Assessment of the feasibility of a Pooled Procurement Option for Public Sector Supply Chain System under the World Bank led ARTF/SEHAT Project is under way. USAID procured and supplied medicines to the BPHS/EPHS implementing NGOs in the 13 USAID supported provinces via its Partnership Contracts for Health (PCH) activity, which ended on June 30, 2015. The requested task aims to evaluate options to strengthen the security and availability of quality-assured medicines after USAID ended its role as a direct procurement agent. On August 07, 2016, Afghanistan President Ashraf Ghani approved a critical strategy paper on implementing a pooled procurement mechanism (PPM) for essential medicines and health products. Afghanistan's Joint Pooled Procurement Committee (JPPC) developed the paper with technical and financial support from the USAID-funded Strengthening Pharmaceutical Systems (SPS) project. The JPPC is comprised of the Office of the President; the Ministries of Public Health, Defense, and Interior; the National Procurement Authority; and the Combined Security Transition Command – Afghanistan (USAID, 2017). These measures are supposed to enhance allocative efficiency of pharmaceuticals.

10. Potential for Fiscal space enhancement

Scenario 1. Potential increases in fiscal space from economic growth

Using data on economic growth, based on the latest IMF data published in October 2019 (IMF, 2019a) and post COVID 19 in April 2020 (IMF, World Economic Outlook - April, 2020), projections of government health expenditures 2020-2023 were conducted assuming that government health expenditures are equivalent to 1.3% of GDP in 2018 (last available real GDP data, IMF) for three scenarios: low, medium and high (Figure 13). The medium scenario is based on IMF projections of Afghanistan GDP growth until 2023, while the low scenario assumes a 3-percentage point lower GDP growth than IMF calculations and the high scenario assumes a 1 percentage point higher GDP growth. The low scenario boundary has been set up at 3 percentage due to high uncertainty caused by COVID 19 effects on national economy. The projections of government health expenditures based on GDP projections should be interpreted with caution because economic performance depends on a range of factors, including security, political and economic stability, governance, policy reforms, and agricultural and extractive industry productivity. The MoF projections of GIRoA budget and expenditures are available up to 2023 thus we adopted time series 2020-2023 in our analysis.

Figure 13. Potential increases in fiscal space from economic growth



Source: MoF, IMF-WEO, October 2019 and April 2020

Table 2. Potential increases in fiscal space from Scenario 1.

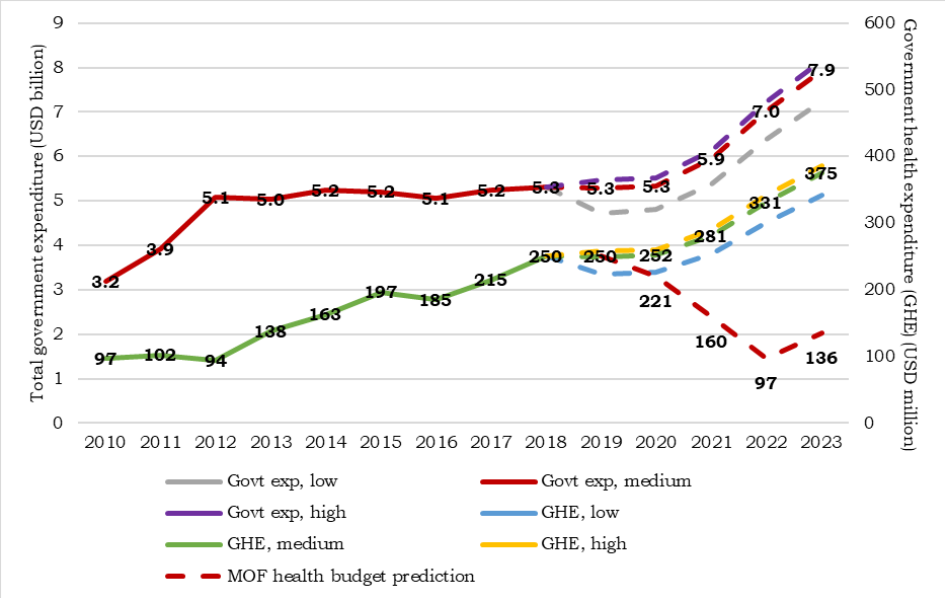
Scenario	Source of revenue for health	Assumptions	USD planned to be generated 2020-2023 (millions)	Average USD planned to be generated per year (millions)
High	GDP increase	IMF prediction of GDP growth rate increased by 1% per year, GHE as % of GDP kept constant on the 2018 level (1.3%)	70	17.4
Medium	GDP increase	IMF prediction of GDP growth, GHE as % of GDP	57	14.4

		kept constant on the 2018 level (1.3%)		
Low	GDP increase	IMF prediction of GDP growth rate decreased by 3% per year, GHE as % of GDP kept constant on the 2018 level (1.3%)	24	6.1

Scenario 2. Potential increases in fiscal space from increased government revenue proxied by total government expenditures

Afghanistan's government revenue is an important fiscal indicator and determinant of macroeconomic and political stability. This is also one of the key fiscal instruments to stimulate development in the health sector to improve quality and accessibility of healthcare, provide healthcare financial protection for the people of Afghanistan through the reduction of very high OOP health spending and improve sustainability of health financing. There is a potential for increase in fiscal space in 2020-2023 due to improved government revenue collection capacity. In addition, a favorable condition is low Afghanistan's public debt at around 7.5% of GDP in 2019. The projections of government health expenditures 2020-2023 were conducted assuming that government health expenditure (GHE) as % of total government expenditures (TGE, IMF) is a constant 4.7% on the 2018 level (last available real TGE/GDP data, IMF). The projections were based on three scenarios: low, medium, and high. The medium scenario is based on IMF projections of Afghanistan total government expenditures as a share of GDP, with the low scenario assuming a 3 percentage point lower share than IMF calculations and the high scenario assuming a 1 percentage point higher share (Figure 14.). However, it appears that government health expenditures projected by MoF significantly varies from previous trends in government health expenditures and also from our projections of government health expenditure based on GDP growth (IMF source) which is a subject of high concern and rapid action.

Figure 14. Potential increases in fiscal space from increased total government revenue



Source: MoF, IMF-WEO October 2019 and April 2020

Table 3. Potential increases in fiscal space from Scenario 2.

Scenario	Source of revenue for health	Assumptions	USD planned to be generated 2020-2023 (millions)	Average USD planned to be generated per year (millions)
High	GDP increase and total government expenditures as % of GDP increase	IMF prediction of total government expenditures as % of GDP increased by 1% (constant), IMF predictions used for GDP, GHE as % of total government expenditures kept constant on the 2018 level (4.7%)	127	31.8
Medium	GDP increase and total government expenditures as % of GDP increase	IMF prediction of total government expenditures as % of GDP, IMF predictions used for GDP, GHE as % of total government expenditures kept constant on the 2018 level (4.7%)	125	31.3
Low	GDP increase and total government expenditures as % of GDP increase	IMF prediction of total government expenditures as % of GDP decreased by 3% (constant), IMF predictions used for GDP, GHE as % of total government expenditures kept constant on the 2018 level (4.7%)	119	29.8

Scenario 3. Potential increases in fiscal space from re-prioritization of the health sector according to targets

Fiscal space for the health sector could be expanded significantly by increasing the health sector's share in government spending. To explore the potential for generating more fiscal space for health in 2020-2023 from re-prioritization of the health sector, projections of government health expenditures were conducted for three different scenarios based on MoPH targets. In the low scenario, government spending on health as a share of total government spending was assumed to increase linearly from 4.7% in 2018 to reach 5% by 2023 (low scenario). In the medium scenario, the share was increased linearly to reach 6.5% by 2023 (Health Financing Strategy 2019-2023 target). In the high scenario, the share was increased linearly to reach 8% by 2023 (Figure 15.).

Figure 15. Potential increases in fiscal space from re-prioritization of the health sector

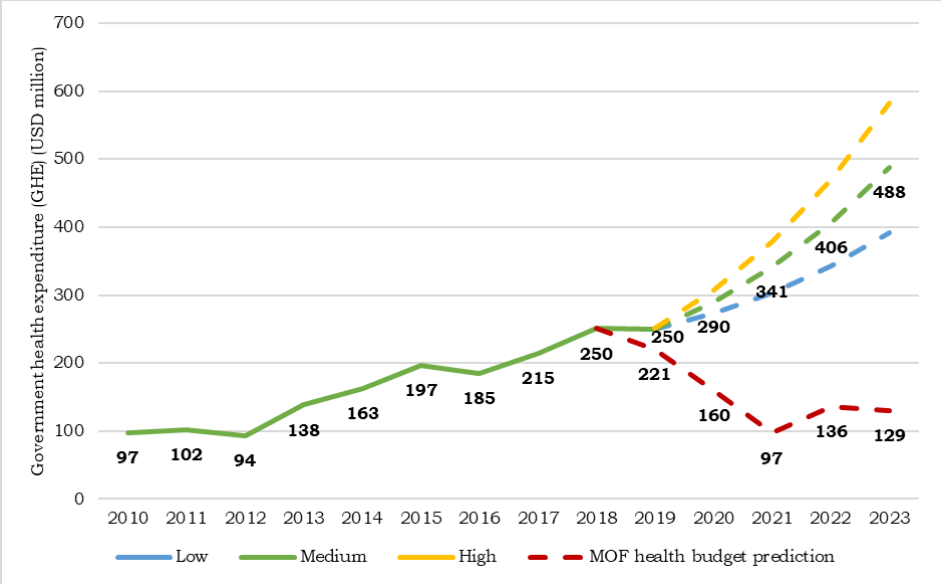


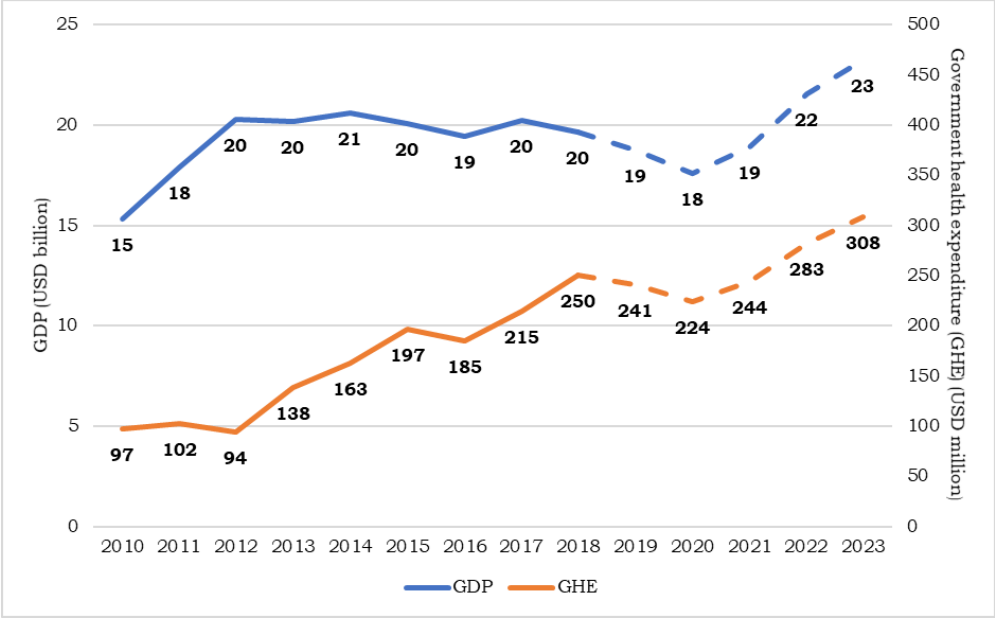
Table 4. Potential increases in fiscal space from Scenario 3

Scenario	Source of revenue for health	Assumptions	USD planned to be generated 2020-2023 (millions)	Average USD planned to be generated per year (millions)
High (8%)	Increase of GHE as % of total government expenditures by redistributing the expenditures within government budget areas (must decrease expenditures in some other areas, for example Security or National Defense)	Achieving the 8% target in year 2024 (GHE as % of total government expenditure), IMF projections of total government expenditures as % of GDP, IMF projections of GDP	332	83.1
Medium (6.5%)	Increase of GHE as % of total government expenditures by redistributing the expenditures within government budget areas (must decrease expenditures in some other areas, for example Security or National Defense)	Achieving the 6 % target in year 2024 (GHE as % of total government expenditure), IMF projections of total government expenditures as % of GDP, IMF projections of GDP	238	59.5
Low (5%)	Increase of GHE as % of total government expenditures by redistributing the expenditures within government budget areas (must decrease expenditures in some other areas, for example Security or National Defense)	Achieving the 5% target in year 2024 (GHE as % of total government expenditure), IMF projections of total government expenditures as % of GDP, IMF projections of GDP	143	35.7

Scenario 4. Elasticity of government health expenditure with respect to GDP

Knowledge of a country's economic growth prospects and its overall fiscal capacity are important background indicators for contextualizing government health expenditure trends. Total health expenditures as well as the government's share of total health expenditures generally increase with national income across countries. The responsiveness, or elasticity, of government health expenditure with respect to GDP gives an indication of whether favorable macroeconomic conditions can be expected to translate into more public expenditures on health. The elasticity of government spending to GDP is estimated by World Bank to be about 1.16 across all low-income countries (implying that a 1% rise in income on average leads to a 1.16% rise in government health spending, on average) (Tandon & Cashin, 2010). However, the overall fiscal health and discipline of a country can significantly affect the degree to which economic growth can be translated into increased resources for health. According to this we projected government health expenditure (Figure 16.).

Figure 16. Elasticity



Source: MoF, IMF – WEO October 2019 and April 2020

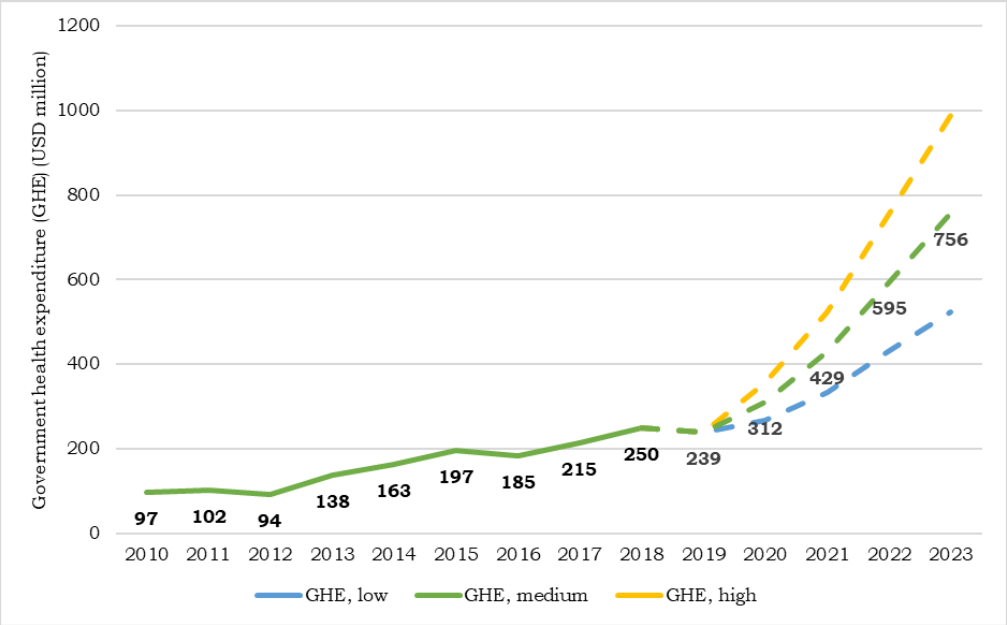
Table 5. Potential increases in fiscal space from Scenario 4.

Source of revenue for health	Assumptions	USD planned to be generated 2020-2023 (millions)	Average USD planned to be generated per year (millions)
Increased GDP plus another source	By world bank estimates (in document "Assessing Public Expenditure on Health from a Fiscal Space Perspective") all low income countries should, on average, increase their GHE by 1.16% for every 1% increase in GDP, IMF GDP predictions are used	68	17

Scenario 5. Allocation of 5% of GDP to Health Sector (World Bank)

To explore the potential for generating more fiscal space for health in 2020-2023 from the re-prioritization of the health sector, projections were made for three different scenarios. In the low scenario, government spending on health as a share of gross domestic product was assumed to increase linearly from 1.3% in 2018 to reach 2.5% by 2023. In the medium scenario, the share was increased linearly to reach 3.75% by 2023. In the high scenario, the share was increased linearly to reach 5% by 2023 (Figure 17.). Assuming everything else was equal, the scenarios would generate the following additional resources in 2020-2023:

Figure 17. WBG recommended 5% of GDP



Source: MoF, IMF-WEO October 2019 and April 2020

Table 6. Potential increases in fiscal space from Scenario 5.

Scenario	Assumptions	USD planned to be generated 2020-2023 (millions)	Average USD planned to be generated per year (millions)
High	Government spending on health as a share of gross domestic product was assumed to increase linearly from 1.3% in 2018 to reach 5% by 2023.	750	187.4
Medium	Government spending on health as a share of gross domestic product was assumed to increase linearly from 1.3% in 2018 to reach 3.75% by 2023.	517	129.3
Low	Government spending on health as a share of gross domestic product was assumed to increase linearly from 1.3% in 2018 to reach 2.5% by 2023.	285	71.2

Scenario 6: Military and public security cost reduction

Based on an IMF study, we calculated that there was a reduction of 17% in average of funds spent on military in developing countries between periods during and after the Cold War. This percentage was estimated based on comparison between the average military expenditures of developing economies in 1980-1990 and 1990-2000 timeframes. Average military expenditures of developing economies consisted of 3.65% of GDP in 1980-1990 timeframe, while that percentage fell down to 3.03% of GDP in 1990-2000 timeframe, which is a 17% drop. (Clements, Gupta, & Khamidova, 2019). Since Afghanistan is a developing economy and has recently signed a peace treaty, we used this information to predict potential reduction of defense budget as % of GDP in the following years. According to Afghanistan's Ministry of Finance budget allocated for National Defense and Security in 2020 is 99.2 billion AFN or 1.28 billion USD. Despite Afghanistan's promising peace initiative we are aware that this is just a first step in a long peacekeeping process that still requires a presence of strong military and public security forces thus we adopted very conservative scenario of reduction of 8.5% of the military and public safety budget which is 50% of 17 % of referenced value (Clements, Gupta, & Khamidova, 2019). If we assume a linear decline of 8.5 percentage in next 10 years, we could expect to reach the 5.1 % decline in next 3 years. This would bring Afghanistan's "National Defense and Security" budget down to 1.22 billion USD after 3 years which would leave 65.5 million USD to be reallocated and possibly used for Health.

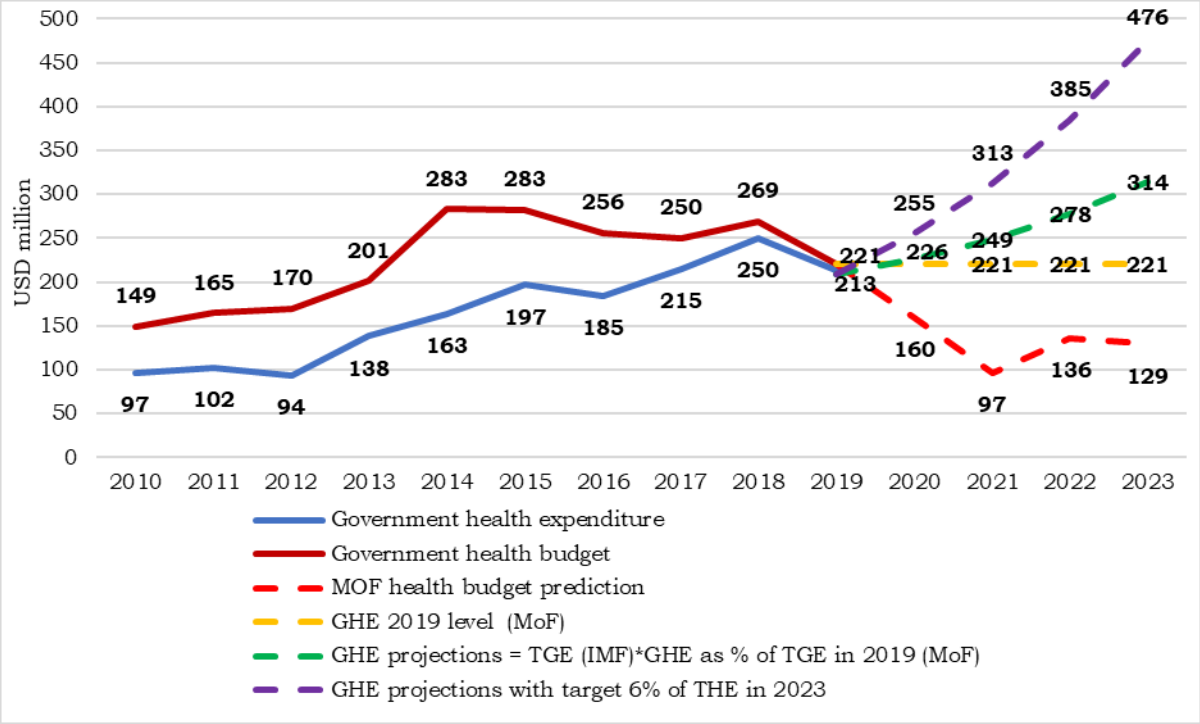
Table 7. Expected revenue from 8.5% national defense budget cut over 5 years

Year	Expected revenue from 8.5% national defense budget reduction over 5 years (USD million)
2020	0
2021	22
2022	44
2023	65

Fiscal Space for Health Analysis

Very low projections of government health expenditures 2020-2023 by the MoF are very worrisome, thus we firstly positioned our fiscal space analysis to estimate how we can cover the health financing gap created by the MoF projections if we maintain government health financing level recorded in 2019. This means that we need to estimate the gap between projected government health expenditures (GHE) by MoF (red dotted line) and government health expenditures in 2019 (yellow dotted line) from 2020 to 2023 (Figure 18.). If we keep constant percentage of THE (MoF) out of TGE (MoF/IMF) reached in 2019, which is 3.9%, and project it to 2020-2023 using TGF (IMF) we can see that GHE will reach 314 million USD in 2023 (green dotted line, Figure 18). The last scenario (purple, dotted line) is focused on the target of 6 % of GHE out of TGE in 2023. Secondly, we estimated the potential enhancement of fiscal space for health using various scenarios to feel the health financing gap and increase government financing for health. A VAT rate of 10% is expected to bring an additional 1.9% of GDP. We haven't used VAT as possible source of health financing as VAT has already been calculated in GDP growth of Afghanistan in IMF projections.

Figure 18. Fiscal Space Analysis



Firstly, based on declining MoF projections of government health expenditures 2020-2023 (Figure 18, c) we calculated the financial gap (Table 9, [A]) that needs to be covered in order to maintain government health expenditure level incurred in 2019 (Figure 18, yellow dotted line) from 2020 to 2023. Secondly, the proposed scenarios for enhancement of fiscal space for health (Section 10, scenarios 1-5) are mutually exclusive as they are based on GDP growth projected by IMF, thus we select scenario 2 with lower projection, due to COVID effects on global and national economy, to estimate potential fiscal space for health based on economic growth (Table 9,[B]). In scenario 2, we estimated government health expenditures as a share of total government expenditure provided by IMF assuming that this ratio is constant at 4.7% (IMF, World Economic Outlook - October, 2019a). This ratio was adopted from 2018 as this is the most updated GDP data from IMF. Thirdly, scenario 6 estimated certain fiscal space that can be used for health ([C]) from reduction of military and security costs. Revenue Generation Strategic Framework developed by MoPH outlined that 192 million USD can be

generated annually based on different taxation. However, the regulatory frameworks haven't been developed yet to support generation of the revenues through the taxation, so we projected gradually increase of government revenue through taxation for period 2020-2023 (Table 8).

Table 8. Potential tax generation timeline

Taxes	Estimated revenue generation per year (USD million)	2020	2021	2022	2023
Tobacco tax	95	0 (0%)	24 (25%)	48 (50%)	48 (50%)
Vehicle tax	23	0 (0%)	6 (25%)	12 (50%)	12 (50%)
Fuel tax	21	0(0%)	5 (25%)	11 (50%)	11 (50%)
User Fees	11	3 (25%)	11 (100%)	11 (100%)	11 (100%)
Health Insurance	39	0 (0%)	2 (5%)	4 (10%)	12 (30%)
Sugar sweetened beverages	2	0 (0%)	0.5 (25%)	1 (50%)	1 (50%)
Total (USD million)	192	3	48.5	87	95

Table 9. Gap and revenue generation calculation

Year	[A] Gap between GHE projected on 2019 level and projected GHE by MoF (USD million)	[B] Potential revenue from GDP Scenario 2 low projections (USD million)	[C] Potential revenue from 8.5% national defense budget reduction over 5 years Scenario 6 (USD million)	[D] Taxes (USD million)	[E] Health budget balance in relation to [A] (USD million)
2020	61	4	0	3	-54
2021	124	31	22	49	-22
2022	85	78	44	87	124
2023	91	119	65	95	188

The health financing position of GIRoA in 2020 and 2021 (Table 9.) is worrisome and urgent and action is needed to mobilize all in-country stakeholders to discuss how to cover the gaps in health financing in 2020 and 2021. The projection (Table 9.) gives a more optimistic scenario for 2022 and 2023 where enhanced fiscal space for health can be achieved if GIRoA supports health financing reforms defined in Revenue Generation Strategic Framework.

11. Conclusion

This paper provides various scenarios for the enhancement of fiscal space for health in Afghanistan and represents a continuation of MoPH efforts to incentivize GIRoA to invest more in health following a few key documents such as Revenue Generation Strategic Framework for the Health Sector and Potential Avenues to Increase Government Investment in Health in Afghanistan Fiscal Space Analysis. Despite many efforts of the MoPH to establish

a positive environment for enhancing of fiscal space for health there have been many barriers that prevented the implementation of proposed measures. There might be a substantial impact on health spending due to the economic shocks brought on by the COVID 19 pandemic. When thinking about the short term, we might see a rise in health expenditures as the country braces itself for a pandemic response. Meanwhile, in the medium term timeframe we can expect decreasing tax revenues and increasing government debt obligations that will place pressure on any available fiscal space. Adaptive measures and reprioritization mechanisms are needed in order to prevent the reduction of public expenditures on health. What is expected is that in the medium to long-term financial pressure on the health sector will come from a mixture of revenue constraints and expenditure demands which have arisen from a need for scaled up investments into core public health functions, as well as from delayed or foregone essential care which has occurred for illnesses other than COVID 19. Domestic fiscal pressures in high-income countries might lead to reductions in donor contributions, at a time when support is most needed by low and middle-income countries. With these competing pressures in mind, a need had arisen for broad-based support for international financial institutions and technical partners that can provide assistance. In order to sustain international aid, it is imperative that Afghanistan takes on a proactive role in resource mobilization. Today more than before there is a strong need and pressure to use domestic and external resources more efficiently to sustain and increase the coverage of essential services. An improvement in national health planning and budgeting processes and health Information system (HIS) will provide a way to inform and impact allocative decisions more effectively.

Support and consensus of all in country stakeholders are urgent in order to support the health financing reforms. The health financing position of GIRoA is troublesome, and stakeholders need to discuss how the deficit in health financing in 2020 and 2021 will be covered. While the fiscal space analysis provides a more positive outlook for the years 2022 and 2023, where enhanced fiscal space for health can be achieved, it is only achieved if there is strong support for health financing reforms as defined by the MoH's Revenue Generation Strategic Framework for the Health Sector. The fiscal space analysis then estimates that 124 million USD and 188 million USD can be generated in 2022 and 2023, respectively, on top of the health spending in 2019.

The main conclusion of this paper is that GIRoA should take proactive steps to mitigate the growing pressure on the MoPH to enhance the health budget. The MoPH needs to continue exploring ways to mobilize domestic public funding for health and improving the efficiency of its health spending to maximize the health benefits for its population.

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