POLICY BRIEF | OCTOBER 2024

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The future of health in Mozambique

Collaborative efforts for sustainable financing

N'weti

WEMOS

Make health justice happen

Mozambique's health system is at a critical moment, facing significant financial challenges that hinder its ability to provide essential care. To build a resilient and equitable system, Mozambique needs to expand its fiscal space for health – by increasing domestic resources, curbing inefficiencies and reducing dependency on external aid.

As part of the project 'Equitable health financing for a strong health system in Mozambique', N'weti and Wemos developed this policy brief with actionable policy recommendations for the Mozambican government and international organizations on how to increase resources for health in a sustainable and equitable manner. With global cooperation and adequate fiscal reforms, Mozambique can secure quality healthcare for its population and move toward a more self-reliant and healthy future.

Introduction

Mozambique's health sector is facing significant financial challenges, which hinder its ability to provide essential health services for its population. While the country struggles with high levels of poverty, infectious diseases and children's chronic malnutrition, its health system remains heavily dependent on external funding sources. More than half of Mozambique's health budget comes from international donors, leaving the country vulnerable to shifts in global funding priorities.

There is an urgent need to identify domestic financial resources in Mozambique and expand the fiscal space for health, i.e., the government's ability to allocate additional funds for health without jeopardizing fiscal sustainability. Expanding the fiscal space would enable Mozambique to reduce its reliance on external donors and strengthen its health system. By increasing domestic resources, the country could ensure health services become more accessible and affordable, particularly for vulnerable groups.

Within the project 'Equitable health financing for a strong health system in Mozambique', N'weti and Wemos published the policy note 'Towards Mapping the Fiscal Space: Health Sector Financing Strategy in Mozambique', analysing the country's fiscal space for health and identifying key constraints and opportunities for increasing investments in the health sector.

Building on these findings, this policy brief presents concrete recommendations for both the Mozambican government and international actors to expand fiscal space for health and sustainably secure resources. It highlights the roles of global actors – such as the World Bank, the International Monetary Fund (IMF), global health initiatives and other international donors – in shaping Mozambique's fiscal landscape. By addressing the gaps in funding, Mozambique can work toward a stronger health system that meets the needs of its population, including the most vulnerable, and reduces its reliance on external aid.

Key fiscal challenges affecting Mozambique's budget for health

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Mozambique's expenditure on health reached no higher than 2,25% of its gross domestic product (GDP), on average, during the period 2016-2023. This percentage is below international benchmarks, which suggest that 5% of a country's GDP should be allocated to health. Mozambique has also not reached the regional target of the Abuja Declaration, which recommends that 15% of national budgets be allocated to health.

In absolute terms, the country spent 12,1 US dollars (USD) per capita per year on health for the years 2016-2023 from its domestic resources. This is far below the 112 USD the World Health Organization (WHO) estimates for achieving the health-related sustainable development goals (SDGs). Even if Mozambique met the Abuja Declaration target or allocated 5% of GDP to health, the resulting health budget would still be insufficient – only 63-68 USD per capita in 2023 – due to the country's overall limited public resources.

Mozambique's health sector financing is constrained by a combination of three key fiscal challenges:

1. **Limited domestic revenue.** Mozambique's ability to generate domestic revenue is hindered by a narrow tax base, widespread poverty and an informal economy that is not taxed. Additionally, the country's economic growth has been uneven. The significant reliance on the extractive industries has not translated into substantial fiscal revenue due to tax incentives and exemptions provided to foreign investors, often encouraged by international financial institutions. Illicit financial flows, such as corporate tax evasion, further hinder domestic revenue.

2. **High public debt.** The public debt situation in Mozambique is precarious, with a significant portion of the budget dedicated to debt servicing. Between 2014 and 2021, the debt-to-GDP ratio increased from around 65% to more than 100%. This is further complicated by undisclosed loans (or 'hidden debt', see box 1) that have strained the country's relationship with international lenders and donors, reducing their willingness to provide financial support and resulting in stricter loan conditions that limit fiscal flexibility.

3. **Dependence on external resources.** The Mozambican health sector is heavily reliant on external donor funding.[1] Some donors fund through vertical programmes, like the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), the United States Agency for International Development (USAID) and the United States President's Emergency Plan for AIDS Relief (PEPFAR). Others fund through official government channels ("on-budget funding"), like Canada, The Netherlands and the United Kingdom. Although external funds fill immediate gaps, they also create a dependency that is neither predictable nor sustainable in the long term. In addition, reliance on external resources subjects Mozambique to the priorities and conditions set by donors, which may not always align with the country's health needs and strategies. Moreover, it confronts the country with the inefficiencies and costs related to coordinating multiple sources of funding.

Box 1 - Hidden debt: the 'tuna bond' scandal

In 2013, Privinvest, a Lebanese shipbuilding group, bribed Credit Suisse bankers and Mozambican officials to bypass parliamentary approval for a 2 billion USD loan. This loan, intended to develop Mozambique's fishing industry and maritime security, benefitted both parties: Privinvest profited by securing the project's contract, and Credit Suisse received interests over the loan. Known as the 'tuna bond' case, the scandal surfaced in 2016, when Mozambique sued both parties claiming that the loan was illegitimate. The US Justice Department concluded that the loans enriched bankers and government officials,[2] while the UK High Court found that Privinvest had engaged in bribery.[3] Mozambique reached a settlement with Credit Suisse reducing part of the debt.[4] However, this did not fully compensate the country's financial damage, which included funds it had already paid, downgrades by rating agencies, halted IMF loans and legal costs. Despite the legal victories, the scandal damaged the country's relations with international lenders and donors, as it raised concerns over corruption and financial misconduct.

The influence of global actors on fiscal space for health

Because Mozambique heavily relies on external funding, it is essential to examine the role that international actors play in the country's fiscal space for health. Institutions like the World Bank, the IMF and international donors have been instrumental in providing financial support and policy guidance to the country. However, as we explain below, their involvement often comes with conditions that may affect efforts to expand fiscal space for health.

The World Bank. The World Bank has played a significant role in supporting Mozambique's health sector through financial assistance and policy advice. However, its approach has not been without criticism.

The World Bank's push for privatization and public-private partnerships (PPPs) in the health sector can divert public resources toward private entities. This reduces the funds available for the public health system and undermines access to healthcare for people who rely on the public health system. These are especially people with less money to spend and people who live in remote areas. PPPs require a return on investment for the private investors involved. This leads to higher costs for health services, making them less accessible to marginalized groups. As highlighted by the WHO, PPPs are particularly problematic in the context of poor government oversight,[5] making them unsuitable especially for the Mozambiquan context.[6]

For example, in Mozambique the World Bank has welcomed the introduction of 'moderating fees' in healthcare; fees that people who use public health services have to pay. A condition of these fees it that their revenue is retained in the health sector and serves to improve the quality of health care. However, user fees for health services are regressive, meaning they weigh more heavily on people with a lower income, which not only violates the country's Constitution but also hinders low-income citizens from obtaining universal access to health.

Moreover, the World Bank reinforces the IMF's emphasis on macroeconomic stability that comes with austerity measures (see below).

The International Monetary Fund. The IMF has a significant influence on Mozambique's macroeconomic policies, indirectly affecting the country's fiscal space for health. Its focus on macroeconomic stability often leads to austerity measures. Because these austerity policies typically prioritize debt repayment and fiscal consolidation over social investments, they reduce the fiscal space for social spending, including on essential health services.

The IMF has expressed concerns about the high public sector wage bill. It absorbs a large portion of government revenue, leaving limited resources for other critical sectors, including health. The institution's policy advice includes recommendations for reducing the fiscal deficit through measures such as broadening the tax base, improving tax administration and reducing inefficient expenditures. While such measures are necessary for fiscal sustainability, others like reducing public sector salaries,[7] limit social spending and weaken the health system without addressing the real problem of the overall low health budget. Moreover, although the IMF has, in some cases, supported targeted social spending programmes designed to protect the most vulnerable populations during periods of fiscal adjustment, broader fiscal constraints restrict Mozambique's ability to expand its health budget.

In May 2024, an IMF mission to Mozambique stressed the need for fiscal consolidation, saying it was "*necessary to secure fiscal and debt sustainability and preserve macroeconomic stability*".[8] However, the challenge lies in balancing fiscal consolidation with the need to protect and expand social spending, including in health. Furthermore, overly restrictive fiscal and monetary policies risk undermining economic development, which is needed to sustain public spending in the future.

International donors. While international donors provide much-needed funding for Mozambique's health sector, their contributions are not without drawbacks. A significant issue with donor funding is the fragmentation it causes within the health system. Many donors prefer to fund specific programmes or diseases through vertical funds, such as targeted investments in areas like HIV/AIDS, malaria, or maternal and child health. While these vertical funds address critical health issues, they often operate in parallel to the national health system, leading to inefficiencies and fragmentation.

This fragmentation not only drains the already limited health workers who prefer to work for donors' programmes but also diverts attention and resources from the broader needs of the health system, leading to imbalances in health outcomes. Therefore, focusing on specific diseases can create a siloed approach to healthcare, neglecting the need for a more integrated and comprehensive health system.

Moreover, the reliance on international donor funds fosters dependency, making Mozambique vulnerable to shifts in donor priorities. Without supporting the country's efforts to increase domestic resources and expand fiscal space for health, this dependency is reinforced and hinders the development of a sustainable and self-reliant health system.

Recommendations for increasing fiscal space for health


Photo: Freepik

Mozambique's health sector financing involves complex dynamics of taxation, external resources and the global financial architecture. Understanding these dynamics is crucial for addressing fiscal challenges and designing effective health policies that balance the needs of different population groups while promoting equitable access to quality healthcare services. Although fiscal policymaking happens within a country, underfunded health systems form a shared global issue and a matter of global social justice that requires both domestic solutions and international cooperation. Moreover, domestic fiscal policies are influenced by global level actions, or a lack thereof.

Expanding fiscal space for health involves increased domestic revenue, improved efficiency in health spending, and a more sustainable engagement of international actors. The following recommendations focus on these dimensions to provide actionable steps for both Mozambique's government and international actors that have an impact on global health. Notably, these recommendations may be also applicable in other contexts facing similar challenges.

Enhance domestic resource mobilization

- **Reform tax policies progressively.** The Mozambican government should reform its tax policies in a progressive manner to increase domestic revenue. Reducing tax incentives and exemptions for multinational corporations, especially in the extractive sector, could significantly boost government revenue. Other strategies include expanding the tax base, improving tax compliance and managing to capture resources from the informal sector through legislation.
- **Implement earmarked taxes for health.** Introducing or increasing earmarked taxes for health, such as taxes on tobacco, alcohol or sugary drinks, could provide a dedicated revenue stream for the health sector. However, the level of these taxes should be set having in mind primarily the main public health goal of discouraging unhealthy behaviour.

Improve efficiency in health spending

- **Reform public financial management systems.** The Mozambican government, with support from global actors, should strengthen public financial management systems to reduce inefficiencies and leakages in health spending. This includes improving budgeting processes, enhancing transparency and accountability, and ensuring that funds are disbursed and used effectively at all levels of the health system. International donors can play a role in aligning their programmes to national management frameworks, ensuring consistency with national priorities.
- **Focus on cost-effective interventions such as primary healthcare.** Mozambique should prioritize cost-effective health interventions that provide the most significant health benefits per dollar spent. A focus on primary health care and preventive services, which are often more cost-effective than curative care, can lead to improved efficiency of health spending. International donors, in particular global health initiatives, can support this by investing in programmes that target primary healthcare and other cost-effective strategies.

Engage global actors

- **Rethink austerity measures and debt.** The World Bank and the IMF should revise their policy advice and loan conditions to ensure that social spending - including health - is protected during periods of fiscal consolidation. They must ensure more flexible conditions that allow for increased health spending even (and especially) while countries are working towards macroeconomic stability. Mozambique and other countries should have the opportunity to negotiate conditions to safeguard social spending. This should include re-negotiation of debt.

- **Curb illicit financial flows.** Both the Mozambican government and global actors must work together to strengthen and support local and international measures to curb illicit financial flows. These illicit financial flows, including tax evasion, transfer mispricing by multinational corporations,[9] and corruption, drain significant resources from all countries, but the biggest negative impacts are on public revenues in low-income countries like Mozambique. The government should improve financial transparency, enhance the capacity of tax authorities, and cooperate with international partners, e.g. by supporting the development of the United Nations Framework Convention on International Tax Cooperation. That way, Mozambique and other countries can reclaim substantial revenue to invest in the health sector.

- **Sustain donor support.** While Mozambique works to increase domestic resources for health, international donors should continue providing adequate and predictable support during the transition period. Mozambique and donors should work closely to develop a clear roadmap for reducing dependency on external resources and strengthening domestic financing capacity while ensuring that health gains are sustained.

- **Strengthen donor coordination and alignment.** International donors should work to improve coordination among their initiatives and strategies to reduce duplication of efforts and maximize efficiency. Importantly, donors should opt for on-budget funding and pooling of resources, rather than using vertical off-budget channels. Together with governments, they should also enhance alignment with national health priorities. This can be achieved through stronger health sector coordination mechanisms and joint planning processes, therefore contributing to the overall effectiveness of the health system.

Conclusion

Expanding fiscal space for health in Mozambique requires a nuanced approach that critically assesses the interplay between national fiscal policies and the role of global actors. While the World Bank, the IMF and international donors are essential partners in Mozambique's development, their influence must be carefully managed to ensure that they support the country's health objectives. By enhancing domestic resource mobilization, improving efficiency in health spending, and advocating for more favourable terms with global actors, Mozambique can build a more sustainable and equitable health financing system. This requires a collaborative approach where the national government and global actors work together to create a positive environment for a sustainable increase in fiscal space for health and reduce the dependency on external resources.

Endnotes

[1] In 2021, 58% of Mozambique's health expenditure came from external resources, according to the WHO Global Health Expenditure Database. [LINK]

[2] U.S. Department of Justice. (2021, October 19). *Credit Suisse Securities (Europe) Limited Pleads Guilty to Conspiracy to Commit Wire Fraud* [Press release]. Office of Public Affairs. [LINK]

[3] Taylor, H. (2024, July 29). Mozambique wins court claim over corrupt Tuna Bonds. *Spotlight on Corruption*. [LINK]

[4] Magee, A. (2024, February 14). Mozambique "Tuna Bond" settlement reveals almost $130 million in agreed payments to creditors. *Spotlight on Corruption*. [LINK]

[5] WHO Regional Office for Europe. (2022). *Public–private partnerships for health care infrastructure and services: policy considerations for middle-income countries in Europe.* [LINK]

[6] Human Rights Watch. (2022). *2022 Country Reports on Human Rights Practices: Mozambique*. [LINK]

[7] IMF. *Republic of Mozambique: Third Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modification of the Monetary Policy Consultation Clause, Waiver of Nonobservance of Quantitative Performance Criterion, Financing Assurances Review-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Mozambique* (Country Report No. 2024/008). [LINK]

[8] IMF. (2024, May 16). *IMF Staff Completes Visit to Mozambique* [Press release]. [LINK]

[9] Transfer pricing is a practice used by multinational corporations to shift profits from countries where they operate to tax havens. By selling goods and services to their own subsidiaries at artificially high or low prices, corporations can move profits away from high-tax countries into low-tax jurisdictions.

About the policy brief

This policy brief was jointly developed by N'weti and Wemos, based on the policy note 'Towards Mapping the Fiscal Space: Health Sector Financing Strategy in Mozambique' (August 2024). The project 'Equitable health financing for a strong health system in Mozambique' is funded by Sint Antonius Stichting Projecten.

N'weti

N'weti is a nongovernmental organization from Mozambique that contributes to the improvement of the health status of Mozambicans.
More information: www.nweti.org/en

Wemos

Wemos is an international civil society organization, based in the Netherlands, advocating structural change to achieve global health.
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