**Innovative financing options for Mozambique**

Like most countries across the globe, Mozambique has embarked on the journey towards achieving universal health coverage (UHC), i.e. ensuring that the entire population has access to a good-quality package of services without suffering financial hardship as a result. This goal requires substantial political commitment as well as financial resources.

The health sector in Mozambique is one of the priority sectors of government policy. Nevertheless, attainment of health sector objectives will be challenging, given the numerous financial and institutional capacity constraints faced by the sector. These constraints are evidenced by the difficulties in accomplishing health-related Millennium Development Goals.

The Health Sector Strategic Plan (Plano Estrategico do Sector da Saude – PESS) 2014–2019 estimates total financial needs of the sector at about $7.8 billion; the financial gap stands at about $2.8 billion. Currently, about two-thirds of the health sector budget is funded by internal sources (taxes, levies and domestic credit) and one-third from external sources (divided into a budgeted common fund and specific off-budget projects). The dominant schemes of health care financing include the government, households, compulsory health insurance schemes (employer-provided insurance) and off-budget donor support/philanthropic initiatives.

This report starts by outlining the health financing situation in Mozambique (Section 1) and identifies the financing gap to achieve UHC (Section 2). Whilst there are many approaches to filling this gap (additional borrowing, efficiency savings in spending, additional donor aid and additional domestic allocation through increased government allocation to health and the introduction of innovative financing mechanisms), this report only focuses on innovative financing mechanisms.

Four mechanisms were selected for further analysis. The selection process as well as the methodology used for the analysis are described in section 3. This section also outlines a review of the literature for each mechanism at international and national levels, presents the outcomes of semi-structured interviews undertaken with key stakeholders and an assessment of the potential for revenue raising for each mechanism.

Section 4 offers some concluding remarks and recommendations. It concludes that in Mozambique the dominant schemes of health care financing include the government, out of pocket/family members; employer-provided insurance; informal groups’ savings schemes; and off-budget donor support and philanthropic initiatives. For most of the formally employed labourers, employer-provided health insurance is an important source of financing and resources pooling. For the poor and those working in the informal sector, resorting to out-of-pocket spending and borrowing is widespread.

After reviewing and analysing the feasibility of a number of innovative financing mechanisms inside and outside the health sector, the study concluded that a new car tax, a new tourism levy, a new alcohol consumption levy and a hypothecation of a fraction of the revenues from taxation of the extractive sectors (coal and gas) stood out as the main feasible mechanisms.

• Tourism levy: based on the analysis of the possible sector effects (demand and supply), possible quantitative effects (size of revenues), convenience and efficiency considerations in the collection of revenues, the study concluded that an ad valorem levy (and not a unit tariff or levy) would be the most feasible option to implement. The study found that an ad valorem levy below 5% is unlikely to reduce demand for accommodation. Therefore, it is estimated that a new tourism levy in the range of 1% on top of the daily accommodation cost would raise a minimum of $3 million per year, assuming that tourism revenues do not fall below the $300 million threshold. Political economy considerations point to a possible competition for revenues among some stakeholders that will require some arbitration by the government as to who gets what and how much.

• Tax on alcohol: The combination of the current tax regime applicable to alcoholic beverages, the market structure (monopoly for beer and oligopoly for wine and spirits) and the existence of some features of informality of the business environment (tax evasion, smuggling and production of traditional beverages) implies that the burden of any new tax or levy on the alcoholic beverages sectors will mostly be borne by the formal players. With this feature in mind, the study concluded that a feasible approach would be to implement a unitary levy based on the volume of alcohol for each type of alcoholic beverage. In this context, the study recommends that levies in the range of MZN 1 to 5 on top of the retail price would be a non-distortionary rate. An alcohol levy would yield a total minimum revenue close to $4.3 million per year.

• Hypothecation of a share of extractive industry revenues: Despite the huge tax benefits granted to the extractives sector, room to optimise collection and allocation of tax revenues remains high given that tax revenues accruing from the sector have been going up since 2010. Based on this, the study recommends a minimum statutory rate of 10%, which would yield a minimum of $20 million per annum that could be allocated to the health sector. Political economy considerations indicate that given that no new tax is being introduced, that the sector has large and long tax benefits and that the output from the sector is for the most part aimed at foreign markets, the allocation rate of 10% is likely not to be distortionary.

• Levy on cars: Even though statistics on the stock and flows of motor vehicles in Mozambique are hard to get, anecdotal evidence suggests that both elements are on the rise. This trend indicates possible room for an increased car levy or new forms of taxes or levies on cars. Taxes paid vary per category (light, heavy, motorcycles and tractors) and class of vehicles (type of fuel and engine capacity). The study’s alternative analysis listed possible taxes such as congestion taxes (to be paid in large cities or municipalities) and carbon emission taxes (to be paid on cars of a certain age), but structural conditions, such as the lack of an efficient public transport system in and outside the major cities and limited and expensive automobile purchase options, render these options ineffective. Therefore, the study suggests that under the current structural conditions in Mozambique, a feasible approach is to raise the existing car taxes by 10% and earmark 10% of those proceeds. Under this option, close to $202,000 per annum could be allocated to the health sector. Political economy considerations, however, point to a potential conflict between the municipalities (which will collect the taxes and are faced with financial challenges of their own, and have the mandate and autonomy to charge and collect tax resources in their jurisdictions) and the Ministry of Health (MoH), which stands to benefit from proceeds from car taxes as cars have negative effects on health.

From the technical perspective, the non-hyothecation principle of public finance in Mozambique could be a challenge to be overcome through political lobbying or decisions.