Weak health systems and Ebola

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The response to the Ebola crisis in west Africa is shining light on the weak health systems in these countries, which have been crippled by years of underinvestment.[1]

Sierra Leone, one of the three countries at the epicentre of the Ebola outbreak, is a small country with a population of 6 million and an average income of US$513. As of Dec 13, 2014, Sierra Leone had recorded 6638 confirmed cases of Ebola and 2033 deaths. The weak health infrastructure is generally explained in the media as resulting from the civil war which ended in 2002. However other factors, including those that precipitated the civil war, need to be considered, such as structural adjustment which caused the collapse of the education system. The combination of jobless youths and income from diamonds provided fertile ground for the formation of the Revolutionary United Front, a group that claimed to be on the side of the population against the government.[2]

To pay for health systems, governments need to raise revenue. The most predictable and sustainable way to do this is through taxes, and both the UN and west African heads of state have agreed that governments need to raise 20% of their gross domestic product (GDP) in tax to meet their development needs.[3] However, although the economy has been growing at 6% per year, Sierra Leone currently only raises 11% of its GDP in taxes.[4] The three main categories of tax are customs duty, goods and services tax, and corporate income tax. Waivers and special deals are given to foreign mining and agribusiness companies to attract foreign investment into the country, despite little evidence to suggest that such incentives attract investment or promote economic growth.[5] When several countries provide widespread tax incentives at the same time, there may be a race to the bottom, with multinational companies being the beneficiaries and the population being the losers, in the form of lost potential revenues that could fund public services. Individualised tax arrangements reached between a small number of government officials and companies, with lack of transparency, also increases the likelihood of corruption. Looking at just five mining companies in Sierra Leone, one recent study[6] found that the country will lose $44 million per year simply from corporate income tax exemptions, nearly all from two UK companies. Losses from exemptions on customs duties and taxes on goods and services granted to companies, non-governmental organisations, and embassies amounted to an average annual loss of $200 million during 2010–12 in Sierra Leone.[6] Overall, tax incentives are estimated to have cost the people of Sierra Leone 14% of their GDP in 2011 and 8% in 2012.[6]

Illicit financial flight is the unrecorded movement of capital out of a country in contravention of the regulations of that country. The main mechanism used to undertake this is multinational companies shifting their tax liabilities to sister companies located in low tax jurisdictions, also known as profit shifting. During 1980–2009, 12% of Sierra Leone's GDP is thought to have left the country each year through illicit financial flight.[7]

Each year the Government of Sierra Leone allocates $25 million on health and $32 million on education.[6] Why would a country where 53% of the population live below the poverty line and the under-5 mortality rate is 161 per 1000 livebirths,[4] choose to spend $244 million (ie, 10 times the health budget) to give tax incentives to foreign companies and organisations?

On the other hand, in a country such as Sierra Leone, why would companies and their shareholders request such tax waivers? Of course, it might be argued that the less tax a company pays the better the profit margin. However, this is a short-sighted view and may be false economy, as shown by the effect of Ebola virus disease in Sierra Leone, which cannot be contained in a health-care system starved of funding. Many companies' profit margins are now being affected by the impact the disease is having on employment, travel, and ordinary daily life.

The Ebola outbreak is frightening investors; the stock price of one company, which benefited from the tax breaks, plummeted and the company has since gone into administration.[8] It could be postulated that, if the tax breaks had not been granted and the health budget increased by 10-fold, the effect of Ebola on the country and company might have been avoided.

Policies must be coherent: from a UK taxpayer's perspective, who will now pay for British troops to go to Sierra Leone? After this crisis passes, consideration should be given to supporting countries that receive UK aid to prioritise the mobilisation of domestic resources through their tax policies. This includes reducing tax preferences

and curtailing profit shifting, and would provide a much more predictable and sustainable revenue stream with which to strengthen health-care systems.

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