



2022
6TH ANNUAL
HEALTH FINANCING
FORUM

Funding Primary Health Care in The Time of Covid-19

CONFERENCE PAPER

JUNE, 2022



Funding Primary Health Care in the Time of COVID-19 - Conference version

Prepared for the 6th Annual Health Financing Forum,
Plenary Session 2: *Funding Primary Health Care in the Time of COVID-19*
The World Bank, Washington DC, 14 June 2022



INTRODUCTION

The prime concern of this document is to set the scene for the consideration of the options countries could use to raise additional resources for primary health care (PHC). The assumption is that PHC is underfunded, at least in low-income and lower-middle-income countries (LICs and LMICs) (Hansen et al. 2022). This background note sets out the macroeconomic situation in which decisions about revenue generation and spending must be made, before turning to the key questions that will be considered in the panel discussion.

1. THE MACROECONOMIC SITUATION

By late 2021, the global economy had been recovering strongly from the 2020 recession, but the pace of the recovery was uneven (IMF 2021). The first update of the “From Double Shock, Double Recovery: Implications and Options for Health Financing in the Time of COVID-19” work of the World Bank¹ was undertaken in 2021 to reflect the more optimistic global outlook (Kurowski et al. 2021b). Despite the more positive global outlook, 52 countries (of the 178 included in the analysis) were projected to see declines in general government spending (GGE) post-2020, to the extent that their levels of real GGE per capita in 2026 would remain below the pre-COVID-19 levels of 2019. The fact that the remaining 126 countries were projected to see GGE per capita expand to 2026 suggests widening rifts between countries in their capacities to spend. The report noted that if the 52 countries did not give higher priority to health in government budget decisions, their per capita government health spending would also fall and remain below pre-COVID-19 levels to 2026: yet it is often politically complex to give higher priority to one sector when overall government spending falls.

There have been many important developments since then. First, the Russian Federation’s invasion of Ukraine in early 2022 led to a surge in the prices of selected goods, particularly energy, some commodities, fertilizer and food. This is on top of the inflationary pressures that had built up in some of the countries that had used deficit financing to support increased government spending to address the needs of the pandemic and to fund recovery. The fear now is that inflationary pressures could lead to interest rate increases – something that has already happened in a number of countries – which in turn would slow growth (IMF 2022a; IMF 2022b; Reinhart and Graf von Luckner 2022).

Second, many countries took on additional public debt to support higher spending in the face of declining GDP and government revenues. Debt – public and private – had already been high before the pandemic, but real interest rates had been at record lows (Kose et al. 2020; Boone et al. 2022). Even with low-interest rates, however, around half of the 69 countries identified as being eligible for debt relief in May 2020 found

¹ The original paper had been published just over a year into the COVID-19 pandemic (Kurowski et al. 2021a).



themselves in, or at high risk of, debt distress (IMF 2020). Further increases in interest rates could see the problem of debt distress increase substantially (Gaspar and Pazarbasioglu 2022; Chabert, Cerisola and Hakura 2022; World Bank 2022).

Third, the international discourse has moved away from spending on immediate health needs, including on COVID-19 vaccines. Where health is mentioned, it is in the context of improving pandemic preparedness, something that will help in the future, but not now. The main global concerns seem to be related to climate change, protecting the poor from the impact of rising food prices, increasing world trade, and addressing rising levels of debt (Bretton Woods Project 2022a; 2022b; 2022c).

Yet more health spending, in the right places, remains critical. In many countries, there is still a backlog of health services put on hold during the pandemic which needs to be addressed. Further, the pandemic has set back progress toward the health-related SDGs, and many low- and lower-middle-income countries (LICs and LMICs) had already been off-track to reach them by 2030 even before the pandemic (WHO 2022). Getting back on track requires investing more in health, more in low- and lower-middle-income countries (LICs and LMICs), and more where it is most needed - in PHC and on health for all (The WHO Council on the Economics of Health for All 2021; Hansen et al. 2022; WHO 2022). The 2019 meeting of G20 finance ministers and central bank governors, immediately before the outbreak of COVID-19, had noted that spending on health is critical not just for the health benefits, but also because it is a key pre-requisite for inclusive economic growth (World Bank 2019). This message risks being forgotten.

Rising inflation and increasing public debt risk adding new wounds on top of the scars caused by the COVID-19 pandemic. Against this backdrop, the IMF updated its macroeconomic projections in April 2022, which could well prove optimistic given that they were published shortly after the Russian Federation's invasion of Ukraine. Global economic growth was, nevertheless, projected to be lower than in earlier estimates. However, some country estimates of GDP per capita, starting in 2020, had been revised upwards, particularly in LICs and LMICs.

Rifts across countries in their capacities to spend on health remained, however. The second update of the Double Shock Double Recovery work, which will be published at the end of summer 2022, suggests that fewer countries face the likelihood of declining levels of real GGE per capita than expected a year earlier. Extending the projection time-frame to 2027, 41 countries are now projected to have levels of GGE per capita lower in 2027 than in 2019 – called the GGE contraction countries (Kurowski et al. 2022a). Sixty-nine countries will see higher levels of GGE per capita through to 2027 than in 2019, but only limited growth over the period – called the GGE stagnation countries. Another 67 are projected to see GGE per capita grow strongly over the period – the GGE expansion countries.



Interest payments on public debt are typically regarded as liabilities by the government. Funds are set aside to meet these payments before decisions are made about the allocation of the rest of the budget. This effectively reduces the GGE available to spend on essential services and activities, including health- the remaining GGE after interest payments are made is called “discretionary” GGE in the remainder of this note.

In a majority of LICs, LMICs, and upper-middle-income countries (UMICs), per capita interest payments on public debt, and the share of interest payments in GGE, will be higher in 2027 than in 2019. Where GGE is growing, increases in interest payments mean that the budget that can be allocated to other government priorities grows slower than GGE – at the extreme, an increase in interest payments could exceed the projected increase in GGE. Where GGE is projected to fall, an increase in interest payments means that the amount available to allocate to other priorities falls more rapidly than the fall in GGE.

The LICs and LMICs in the contraction group of countries are an exception: average per capita interest payments are projected to fall along with the decline in GGE per capita. In this case, discretionary GGE falls less quickly than GGE.

The biggest impact of growing interest payments on GGE is in the LMICs in the expansion group of countries, where per capita interest payments are projected to more than double between 2019 and 2027. Despite increases in GGE per capita, the share of interest in GGE would increase from 8.4% to 12.8%. In 2027, the average real GGE per capita for these countries is projected to be \$806, but the discretionary GGE that can be allocated after interest deductions would be only \$703.

However, the main concern is with the contraction and stagnation countries, where every increase in interest payments on public debt reduces the amount that could be spent on other activities, including health.

2. WHAT DOES THIS MEAN FOR HEALTH SPENDING?

The 41 contraction countries, if the macroeconomic projections prove correct, face uncomfortable choices. They could only prevent health spending from falling if they increased the share of discretionary GGE allocated to health: and the share would have to increase to historic proportions to allow health to increase at the average rate observed for the different country income groups before the pandemic began (Kurowski et al. 2022). If government health expenditure (GHE) does not increase or fall, these countries can only increase spending on PHC by allocating a higher share of the static or declining health funds to PHC, which means reducing other types of health spending.



The 69 stagnation countries have a little more space to increase GHE. Increasing PHC spending to the extent necessary in the LICs and LMICs in this group would, however, also require a substantial increase in the share of GGE going to health or an increase in the share of GHE going to PHC, both decisions that are politically complicated.

The 67 expansion countries have, of course, greater capacity to spend more on health and on PHC. The growth in GGE and discretionary GGE allows health spending and PHC spending to increase even with no increases in the share of GGE allocated to health, or in the share of PHC funding in GHE. Increases in the respective shares allow health and PHC spending to rise faster: although the political will to do this is required.

3. SESSION OBJECTIVES

The plenary discussion will take place against the backdrop of these macroeconomic projections. It will explore two interrelated questions.

What are the options to increase government spending overall – particularly in contraction and stagnation countries?

Part B of the original Double Shock, Double Recovery paper outlined the strategies countries could take to increase GGE as a share of GDP: they include increasing the range of government taxes and charges including obligatory health insurance premiums, increasing the rates of existing taxes and charges, expanding the revenue base, improving the efficiency of revenue collection (Kurowski et al. 2021a). Increased public borrowing and on-budget development assistance also increase GGE while improvements in efficiency and the elimination of ineffective or harmful government such as fuel subsidies increase the funds available for other uses.

Which of these options is the most appropriate depends on the country's situation and what is considered to be prudent fiscal policy. Part of the discussion will focus on what the countries represented by the panelists are doing at the moment. Part will also consider whether it is possible to relax some of the traditional macroeconomic constraints which have defined prudent fiscal policy – for example, but relaxing limits on spending in the face of inflationary pressures or on public borrowing – as suggested by the WHO Council (The WHO Council on the Economics of Health for All 2021).



What are the options for allocating:

- a. a higher share of government spending to health, and
- b. a higher share of health spending to PHC – particularly in the contraction and stagnation countries?

Options for increasing the share of GGE allocated to health are also discussed in Part B of Kurowski et al. (2021a). While many budget decisions are influenced by politics, improvements in public financial management in health with a focus on results and explaining them in a way ministries of finance understand, can lead to higher allocations to health. Pro-health taxes or increasing social health insurance premiums could also increase the share of health in GGE if they are allocated entirely, or disproportionately to health (see box 1).

Box 1: Pro-health taxes

There is continued debate about whether earmarking taxes for health actually increases the long-term share of GGE allocated to health, or whether governments adjust downwards their allocations from other sources to compensate, but pro-health taxes are beneficial largely because they improve population health (Kurowski et al. 2021a). The side benefit is that they also raise additional funds, at least some of which can be allocated to health. A deep dive session – side event 6 - later in the Forum will consider health taxes.

Little is known, however, about how to successfully shift the health budget towards PHC, especially when GGE is stagnating or declining. In this session, the panelists will describe steps that they have taken to try to increase the share allocated to health, and then increase funding for PHC.

The panel will consist of decision-makers from low- and middle-income countries, some from ministries of finance or budget, and some from ministries of health, complemented by representatives from civil society and the IMF.

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