Health Economics

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Finance for health care: part of a broad canvas

The economic crisis of the 1980s led to cuts in both government and household expenditure on health in the Third World. In order to address these issues it is necessary to adopt a macroeconomic approach to the analysis of the health sector; this allows its relationship to the whole economy to be understood. The efficient and equitable utilization of resources is particularly important in times of severe financial constraint.

At Alma-Ata in 1978 the world community declared that it would give special attention to primary health care in developing countries. Since then, various strategies have been employed in order to mobilize and utilize resources for this purpose. Governments have been encouraged to increase the resources devoted to primary health care, and donors and nongovernmental organizations have increased their support in this field.

However, shortly after Alma-Ata the developing countries were hit by a macroeconomic crisis from which most of them, particularly those in sub-Saharan Africa, are still suffering. Persistent current account and government budget deficits have led to unprecedentedly high levels of external debt and interest payments. In order to improve the situation, governments have adopted financial stabilization and structural adjustment programmes proposed by the International Monetary Fund and the World Bank. Financial restraints have been imposed and per capita domestically financed government expenditure has been cut in virtually all sectors, including that of health, in most developing countries. In some countries the social sectors have been hit harder than others.

Two major issues have arisen at national level: has the health sector been allocated a fair share of government budget cuts, and to what extent has the economic crisis depressed household expenditure on health and adversely affected health status? In

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order to address these matters, a macroeconomic approach to the analysis of the health sector is necessary. It should be practical and should help to define policies for health system reforms, new financing schemes, international cooperation, and so on.

**Macroeconomic analysis**

The macroeconomic approach gives a comparatively broad perspective of the resources available for health care. By no means limited to government resources, these include official development aid, aid from nongovernmental organizations, and household expenditure. Average real per capita publicly financed health expenditure in 20 African countries fell from US$ 9.50 in 1982 to $ 8.70 in 1985 (adjusted to 1980 values) (1). However, this trend was subsequently reversed, the corresponding figure for 1987 being $ 9.90; this was partly attributable to an increase in foreign resource transfers for the health sector. Even so, it should be noted that the recent positive trend in average expenditure may well conceal significant reductions in per capita health expenditure in a number of countries. One also has to bear in mind that provided by government. Households are increasingly expected to contribute towards the costs of health care, for instance via community financing schemes or national user fee systems; this may be desirable, provided that both the quantity and quality of care are raised. Of course, for reasons of equity and in order to ensure access to health care, cost-sharing principles may have to be developed differently.

The existence of these additional sources of finance partly explains why health status indicators in developing countries continued to improve during the 1980s (see fig.). Nevertheless, improvements would undoubtedly have been greater without the economic crisis. On the other hand, the crisis had the salutary effect of pressurizing governments to introduce much-needed reforms in health care systems.

The importance of the relationships between the health sector and other sectors of the economy can be assessed through macroeconomic analysis. Good health status benefits productivity in all sectors. Good economic and social conditions, in the areas of income, food, water supply, education and so on, are beneficial to health status. Clearly, therefore, expenditure on health is beneficial to other sectors indirectly; that on the other sectors benefits health.

The provision of health services requires the importation of drugs, vaccines and other items. This demands foreign exchange, the availability of which depends on macroeconomic factors or policies. In some countries, balance of payments difficulties have led to severe shortages of foreign exchange which have reduced the ability to import. Where cost-sharing mechanisms have generated funds in domestic currency, public health systems have often faced difficulties in converting them into foreign exchange for imports. Structural adjustment

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households and nongovernmental organizations contribute substantially to the financing of health expenditure. In some countries, nongovernmental resources, excluding official development aid, have actually been more important than those
programmes, aiming among other things to improve the balance of payments situation, could allow more foreign exchange to be allocated to the health sector. Since 1983 the current account positions, excluding interest payments, of countries with debt-servicing difficulties have become positive, overall current account deficits have declined, and the rise of external debt has tapered off (2). Of course, these improvements can only benefit the health sector if there is a strong commitment that they should do so.

**Steady but modest improvement**

Most developing countries are showing signs of recovery but prospects of rapid growth are remote, given the recession in the industrialized countries. Nonetheless, the improving trend that started in the mid-1980s can be expected to continue and to benefit the health sector. The commitment of governments, official donors and nongovernmental organizations to primary health care is also expected to continue. As the social dimensions of structural adjustment programmes are increasingly taken into consideration and as the pressure from donors mounts, it can be expected that governments will make special efforts to increase their health budgets. The establishment of cost-sharing schemes may provide publicly organized health systems with supplementary resources.

It is likely that a slow but steady improvement in health resources and health outcomes will continue. Some influences on health, such as the immunization coverage
of one-year-olds, are predicted to increase rather rapidly in a number of countries if efforts are sustained. For instance it is expected that a large majority of the 34 countries with low human development (an index based on life expectancy, literacy

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and real per capita gross domestic product) will reach the immunization target of 100% coverage before the year 2000 (3). Other health determinants such as access to safe water are also predicted to improve, but more slowly; five out of 18 of the poorest countries should reach 100% access by the year 2000 if current trends continue (3).

Most low-income countries will have to reduce, at a significantly higher rate than hitherto, mortality among children aged under five years if the target of 70 deaths per 1000 live births by the year 2000 is to be achieved. Special attention will have to be paid to the impact of AIDS on infant and child mortality, which could rise by 50% in some African cities by the end of the century (4). Unless the necessary action is taken by governments it may take most of the countries concerned at least 30-40 years to achieve the target.

Can progress be speeded up?

In the past, much attention was given by policy analysts and decision-makers to the microeconomic aspects of health projects and interventions. In order to gain a better future for the health sector a broader, macroeconomic view should be taken. This means considering both the economic behaviour and activities of and the constraints on central and local government, enterprises, households, and national and international donors.

A macroeconomic approach should give a better understanding of the feasibility of accelerating health improvements and of the economic policy instruments at hand. Furthermore, it should complement the microeconomic approach. The microeconomic analysis of a region or district, for example, is more useful if embedded in a macroeconomic framework than it would be on its own.

It is beneficial for the health sector if the different partners in the financing of health services are involved in the planning of national health operations. Calling on various partners should not be seen merely as a way of achieving cost recovery but also as an opportunity to produce or increase benefits. Indeed, it should lead to the proper assessment of optimal investment for the health sector.

National health planners should take into account the limited nature of budgets allocated to the health sector by the different partners. For instance, it makes no sense to plan steady growth of government health expenditure which cannot be matched by overall growth in the public sector. This, in turn, depends on the expansion of the economy as a whole.

Reallocation of resources

Health status indicators would undoubtedly improve if resources could be transferred from certain areas, for instance the military, to health or other social sectors. However,
resource transfers from the latter to health may not always result in significant improvements in health conditions, because of indirect effects. Thus a reduction in support for the agricultural sector could diminish the availability of food, reduce nutritional status, and undermine health. A reduction in expenditure on housing and hygiene could lead to increased exposure to parasitic and water-borne diseases. It is therefore important for policy-makers to know what the distribution of resources between sectors should be in order to secure the best possible results. A decision to favour one sector over another may, in the short term, be justifiable, depending on the potential long-term contribution to health of each.

Utilization of resources

A true picture of resource utilization cannot be obtained merely by examining health care budgets. It is necessary to reduce or avoid waste: resources should be reallocated if they do not contribute to the achievement of health objectives. This should happen, for example, if too much medical manpower has been recruited in health facilities with limited activities.

Cutting down on waste requires straightforward application of the principle of cost efficiency, whereby resource allocations are made so as to give the greatest possible health benefit. Governments often allocate excessive funds to urban areas and curative care. Better results could often be obtained by channelling more to rural areas and preventive care. National policies do not always lead to the purchase of the least expensive drugs. International aid projects are sometimes poorly coordinated and may overlap. Were such projects more clearly focused on national priorities, better value would be obtained from the resources invested. It is also important that households should receive good value for their money. For instance, by acquiring drugs in bulk or as generic products the purchasing power of household revenues is raised and access to health care is consequently improved.

Challenges for nongovernmental organizations

Many nongovernmental organizations are efficient; their logistics are usually well developed and bureaucratic delays are often minimal. For instance, Médecins sans Frontières has an ability to respond quickly to urgent needs, as in natural disasters and war. Medicus Mundi International demonstrates both expertise and efficacy in conducting long-term projects, such as the development of primary health care systems.

The activities of nongovernmental organizations should become more integrated into the overall development strategies of countries in order to maximize the efficient use of resources. At the same time, these organizations should share their know-how with countries regarding logistics, administration, drug purchasing, and so on.

It is important that nongovernmental organizations continue their creative work in
the interest of the development of more appropriate health systems. Government agencies and international organizations should emulate the efficiency of nongovernmental organizations and explore further possibilities of subcontracting work to them.

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Finance for health development, whether coming from countries, official donors or nongovernmental organizations, should be used more efficiently and equitably. If countries were to use their resources more efficiently the international community could be expected to provide sustained support for their health sectors. This could come in many forms but should certainly include backing for capacity-building in macro- and microeconomic analysis.

References


Health crisis ahead!

There has been some complacency with regard to ill-health following on industrialization, greater life expectancy, and the far-reaching changes in life-styles and values now taking place. The complacency is mainly attributable to the expectation that advances in technology would be adequate to cope with the problems. Only recently have the global prospects for human health begun to disturb this complacency and attract the attention of the world community...

The industrialized countries are now becoming aware of the magnitude of the health hazards that industrialization can generate and of how they accumulate and are often detected only after they have caused widespread serious impairment of human health. Many developing countries are confronted with a double health burden: not only must health authorities cope with the continued prevalence of malnutrition, diarrhoeal and respiratory diseases, and others such as AIDS and malaria, they must also face the emerging problems associated with industrialization, urbanization, and changing life-styles, including occupational hazards, cardiovascular disease, cancer, drug abuse, and accidents. If this situation continues, it will give rise to a health crisis of unmanageable proportions.