COVID-19 Implications for Health Financing in Pacific Island Countries

The economic and health impact of COVID-19 (C19) is expected to be substantial, even for countries with no reported C19 infections. Pacific Heads of Health have an opportunity to take strategic action that will help to protect and improve population health and the delivery of essential services. Necessary (re)prioritization and (re)allocation of resources needs to be informed by the lessons from C19 preparation. This must include more focused efforts to strengthen the weak systems that underpin the delivery of quality essential services for universal health coverage (UHC). Without these improvements, your country will not have the strong foundation needed to respond effectively to current and future threats to economic and health security that are predicted to become more frequent and more severe over coming years.

Questions for discussion by the Heads of Health include:

- Are your health services ready to isolate and manage people with C19 infections?
- What steps are you and your senior management team taking to protect and improve health resources? How are you (re)prioritizing and (re)allocating resources in your workplan and budget for now and for the next year(s)? (see paragraph 11)
- Are there specific areas your ministry needs assistance with from development partners? If so, how do you propose this be provided for maximum effectiveness given the current situation with travel restrictions etc?

The Big Picture[1]

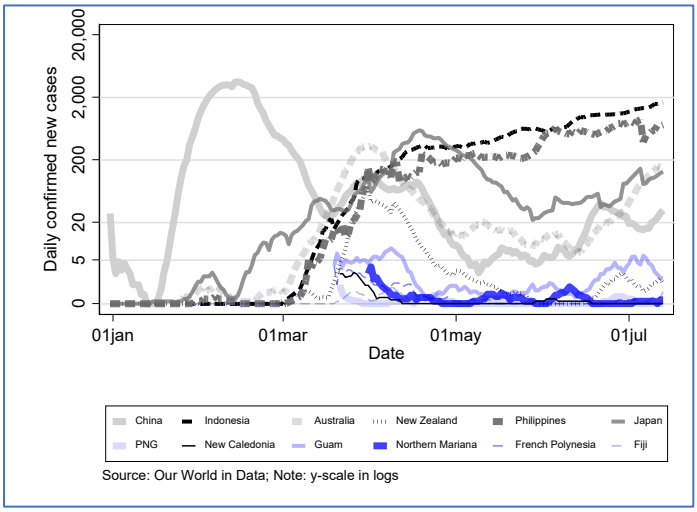
1. Globally, from a health perspective, COVID-19 (C19) continues to extract a heavy and growing toll in terms of its impact on morbidity and mortality, with countries being at very different stages in the evolution of the pandemic. **Pacific small island countries continue to be largely spared by the direct health effects of C19, but there is concern that disruptions to routine essential service delivery caused by C19 preparatory activities may see an increase in preventable deaths and illness from other causes.** Repatriation flights that are now underway in some countries may result in imported infections, which will need very careful management given the lessons from many countries. While analysis on gendered impacts of C19 is ongoing, there is evidence of increased risks for women and children.[2]

2. Initially originating in China's Wuhan province, C19 has now spread to almost all countries in the world. As of mid-July 2020, about 13 million individuals are confirmed to have been infected and over 550,000 have died as a result of the infection, with most deaths occurring among the elderly and among those with co-morbidities; globally, new infection rates remain in the vicinity of 200,000 per day. Whereas the pandemic peaked in China in February 2020, within Asia its locus appears to have now shifted to South Asia. The Americas, particularly the USA and Brazil are experiencing very high local transmission, and there is a concerning increase in reported infections in South Africa. The trajectory of the outbreak remains uncertain in several countries in the immediate neighborhood of the Pacific, including New Zealand, Indonesia, Philippines, and Japan; Australia has had a concerning increase in community transmission over recent weeks and other countries may experience similar challenges. As of 10 July, 444 confirmed infections and 7 deaths had been reported across Pacific Island Countries and Areas (excluding Australia and New Zealand). Out of the 20 countries and areas, 15 had no confirmed infections.[3] Several mitigation and suppression policies – collectively labeled as the 'great lockdown' of 2020 – were put in place by governments including in Pacific countries to stem the spread of the pandemic, many of which are now slowly being lifted. These ranged from closure of schools and non-essential businesses, restaurants, limitations on retail activities, cross-border and intra-country travel and trade restrictions, physical distancing mandates against public events and gatherings, stay-at-home orders, as well as curtailment of public transportation to varying degrees. Concerns remain, however, since localized outbreaks continue to occur even in countries that appear to have controlled its spread; risks of subsequent waves cannot be ruled out in the absence of an effective vaccine and/or antiviral treatments.

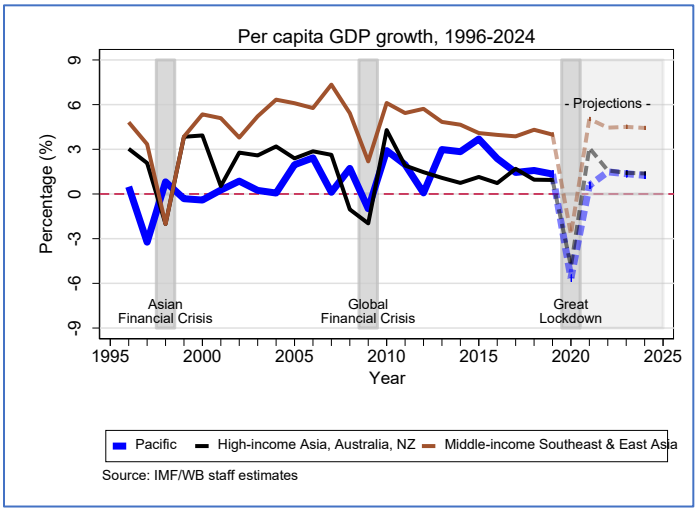
[1] The analysis presented in this paper builds on ongoing work conducted jointly by the World Bank and colleagues from WHO-WPRO. The World Bank analytical work is funded in part by the Australian Government through the multi-donor trust fund to Advance UHC

[2] This includes through interrupted supply of contraception and vaccine products and broader sexual and reproductive health services, as well as reports of increased gender based violence: https://www.unfpa.org/press/new-unfpa-projections-predict-calamitous-impact-womens-health-covid-19-pandemic-continues & https://www.unwomen.org/-/media/headquarters/attachments/sections/ library/publications/2020/policy-brief-the-impact-of-covid-19-on-women-en.pdf

[3] WHO Situation Report – Pacific Joint Incident Management Team



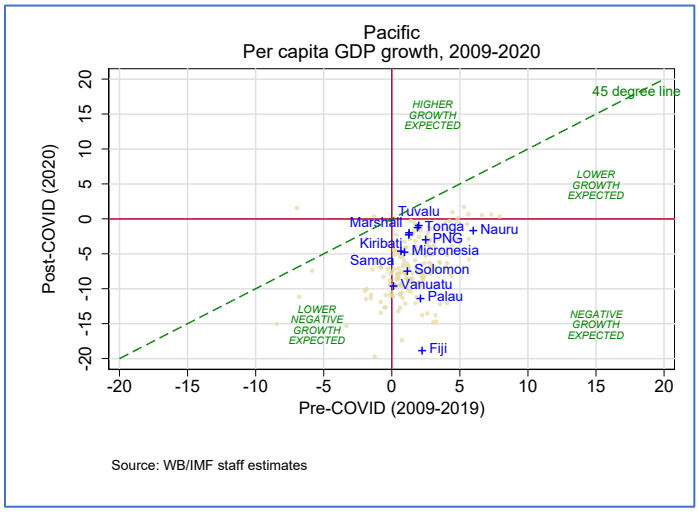
3. From an economic perspective, the economies of Pacific countries are being hit especially hard by C19 and a severe economic contraction is occurring. The full extent of the economic shock – which is affecting both the demand and supply of goods and services – remains unknown at present but projections are dire. C19 lockdown measures are resulting in a deep global economic contraction, surpassing in severity previous global and regional economic contractions of 2008-2009 and 1997-1998. Sharp declines in capital flows across all low- and middle-income countries have occurred. The transmission of the global economic shock to the Pacific is already happening via steep reductions in tourism, changes in commodity prices, and uncertainty around remittances. **Current projections are that Pacific countries will see their economies contract by -5.7% in per capita GDP terms in 2020**[4], worse than the expected contraction of -2.7% on average across middle-income Southeast and East Asian countries. Australia, New Zealand, and high-income Asian countries are expected to contract by -4.8%. Most countries are also seeing and/or expecting a rise in unemployment, poverty, and inequality. Although current projections indicate an economic recovery beginning in 2021 in some countries, this will most likely be slow, erratic, and in some cases may take several years to fully realize.



4. The severity of the economic contraction is likely to vary significantly across Pacific countries. Some countries in the region are more vulnerable than others. Economic vulnerabilities can take several forms, but two that are key in the current context are the degree of external integration with the global economy (e.g., dependence on exports, tourism, foreign investment, etc.) and the degree to which countries are fiscally vulnerable (e.g., have high dependence on grants, low tax revenues, high debt levels, high inflation, etc.). **Higher vulnerabilities will affect not**

[4] Latest IMF World Economic Outlook estimates.

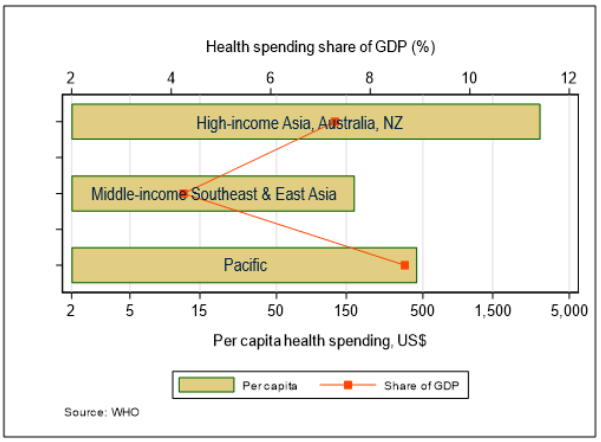
only the magnitude of the adverse economic impact but also its duration and uncertainty. Tourism accounts for almost 20% of GDP in Fiji and more than 5% of GDP in Solomon Islands.[5] Exports as share of GDP are high – almost 50% of GDP -- in Fiji, Solomon Islands, Palau, and Vanuatu. Levels of external debt (both public and private) are high in PNG, Samoa, Tonga and Vanuatu. A large current account deficit also increases vulnerabilities for Fiji. PNG and Solomon Islands are highly dependent on commodity exports. Remittances as share of GDP exceeded 10% in Tonga, Samoa, Marshall Islands, Tuvalu, and Kiribati. In general, pre-C19 fiscal vulnerabilities – those that can constrain the ability of countries to implement countercyclical fiscal policies – were relatively high in the Pacific on the dimension of dependence on grant revenues. Pre-C19 gross public debt levels were almost 80% of GDP in Nauru. PNG and Fiji had pre-C19 debt service shares that averaged 10% of government expenditures, higher than the share going to health. Current estimates indicate Fiji will see a contraction of its economy in per capita terms of almost 20%; Palau and Vanuatu are likely to see per capita GDP rates declining by 10-12%, with Samoa and Tonga also likely to see double digit contractions in GDP; Solomon Islands will likely take a hit in the range of a 7-8%. Most other countries in the region are expected to see per capita economic contractions in the range of 1-5% - all evolving estimates for now.

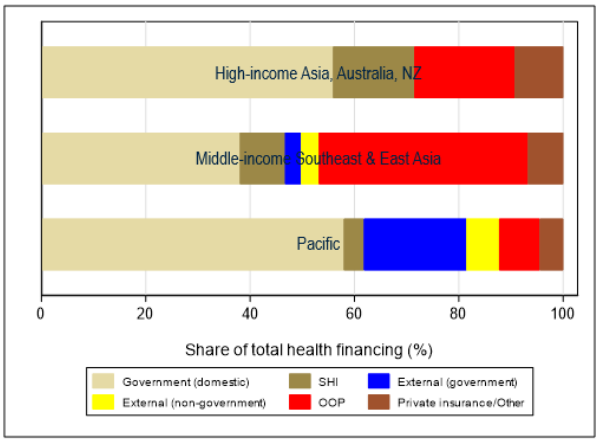


Impact on Financing for Health

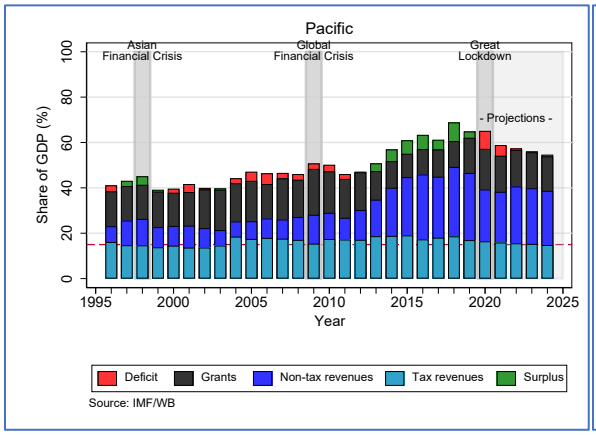
5. **Health is primarily financed via a combination of domestic government revenues and external financing sources in the Pacific.** External financing flows via the government budget are generally higher than those going directly to non-governmental organizations (NGOs) and health care providers in the Pacific. Before C19, average per capita health spending among Pacific countries amounted to ~US$500 (~9% of GDP); out-of-pocket (OOP) financing – typically the largest share of financing for health in other developing countries including among most middle-income Southeast and East Asian countries – played a relatively small role in the Pacific (<10% of total health spending) in line with WHO recommendations that this be less than 15-20% of total health spending across countries in order to make progress towards UHC. However, compared with other regions, Pacific countries are highly dependent on external financing which accounts for almost a quarter of total resources going towards health.

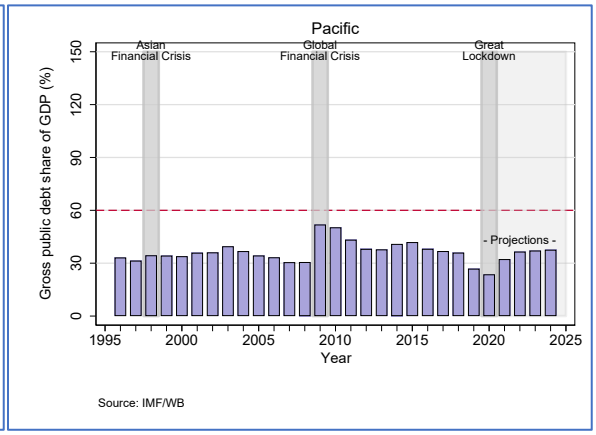
[5] Numbers reported are from those countries for which data were available.



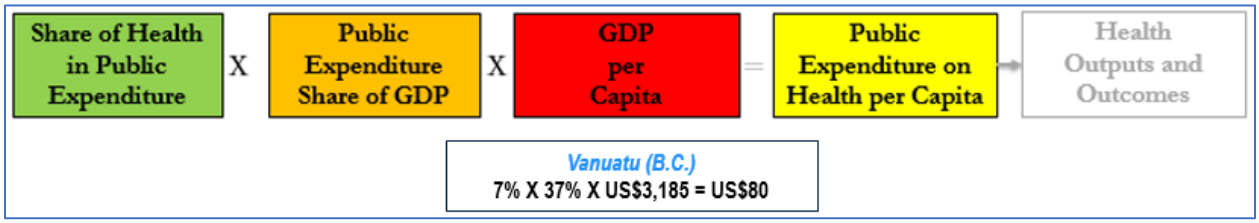


6. On average, current projections indicate that Pacific countries are expected to see a decline in domestically-sourced government revenues, largely no change in the grant revenue share of GDP (although this is uncertain given the global impact of C19 on traditional grant providers such as development partners through budget support and project investments), and an increase in borrowing to offset the decline in government revenues (where debt levels allow). There are large country-specific variations, **but on average overall government spending levels are expected to contract by the same amount as GDP across Pacific countries**. In addition, public debt levels are expected to rise, implying that fiscal tightening effects will be evident for several years due to debt servicing needs.

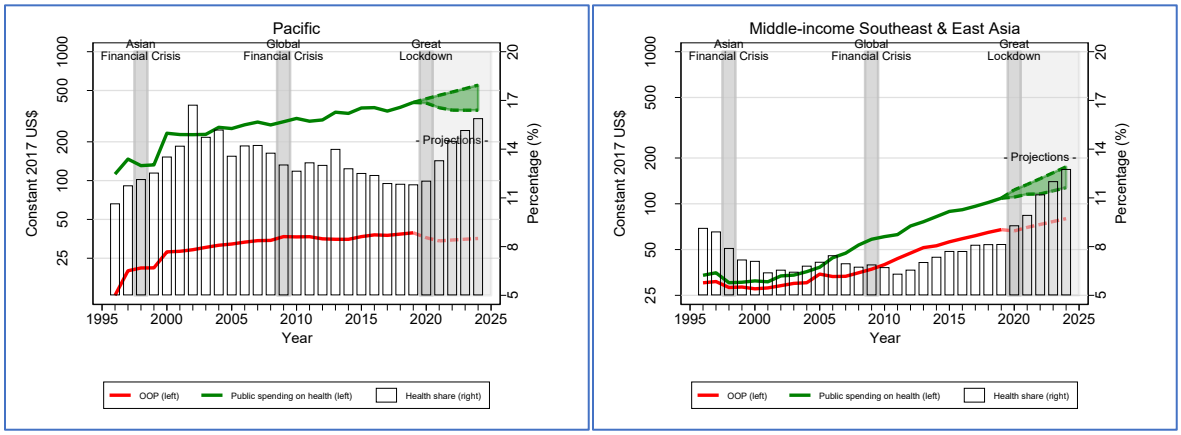




7. The impact of C19 on overall financing for health in the Pacific will depend not only on the extent, duration, and severity of the economic contraction but also on its impact more generally on domestically-sourced government revenues, on what happens to overall government borrowing, and to development assistance. For example, before C19 , WHO estimated Vanuatu's per capita public expenditure on health to be ~US$80: resulting from the combination of the size of its economy (GDP per capita - US$3,185), the share of the government in the economy (public expenditure share of GDP = 37% of GDP of which roughly 25% of GDP was domestic government revenues, 11% of GDP were grants, and 1% was borrowing), and health's share of total government expenditure (share of health in public expenditure 7%). Even if the size of the economy contracts – as it is expected to in Vanuatu by -10% -- the impact on public expenditure for health could be protected if the government's share of the economy increases (as is expected due to an increase in borrowing to 9% of GDP taking public expenditure up to 41% of GDP) as does health's share of the government budget. Along with Vanuatu, Marshall Islands, Micronesia, Palau, Samoa, Tuvalu, and Solomon Islands are expected to increase government expenditure by increasing borrowing, while others such as PNG, Fiji, Kiribati, and Nauru are currently projected not to be able to do so.



8. As a result, most governments are looking more carefully at how they use their limited resources to get the best benefit for their people during this time of added hardship. Without countries going into extreme debt, **this means at a very practical level that most governments will have less money to spend so the ongoing annual budget allocations for each ministry/department will likely be smaller over coming years,** including for the health sector unless effective justification is provided. Public expenditure on health could be protected from declining overall government expenditure if health is reprioritized, i.e., health's share of government expenditure increases. However, given that health already enjoys a relatively high share of government budgets across the Pacific (~12%, which is higher than the global average), this may not be a realistic option without more evidence informed justification. **Without reprioritization for health, both per capita levels of public expenditure and OOP expenditure are currently projected to decline across the Pacific**, similar to what is expected across middle-income Southeast and East Asian countries. This makes it even more important for governments, with the support of development partners where needed, to be taking action now to get the best value outcomes from the health resources available (that is from the money, workforce and related infrastructure, equipment and supplies).



What can Pacific Heads of Health be Doing at a Practical Level to Protect and Improve Health?

9. Less overall government resources are likely to mean that the health sector in each country will need to make a strong and clear case for continued investments to maintain or increase allocations. To do this effectively, health ministries need to be able to demonstrate what health benefits are being achieved as a result of the resources provided. **The annual government budget submission is usually the most important time for each health ministry to make its case for the funding and other resources needed**. **The ministry of health's budget submission needs to be realistic and sustainable in the context of the overall resources available to the respective country.** This will inevitably require some level of demonstrated reprioritization and reallocation of existing resources in line with agreed strategies to address priorities and improve overall population health. Being able to discuss these issues with finance ministries and with development partners will help health ministries to make the case for existing and additional resources as needed.

10. Reprioritization and (re)allocation of resources needs to be informed by the lessons from C19 preparation. For the health sector this must include more focused efforts to strengthen the weak systems that underpin the delivery of quality essential health services for all. **Without these improvements, countries will not have the strong**

foundation needed to respond effectively to the current and future threats to economic and health security that are predicted to become more frequent and more severe over coming years.[6]

11. In the Pacific, while substantial new resources have been provided by governments and/or development partners for C19 prevention and response efforts this is unlikely to be sustainable over coming years. Lessons from C19 and earlier assessments have highlighted the need for more focused efforts to strengthen the weak systems that underpin the delivery of quality essential health services for all. **Key questions each ministry management team is encouraged to ask include:**

- **What is your ministry doing to improve the governance and accountability for the use of resources you have been given? Do you have transparent, timely and quality information on all resources available to your ministry to make decisions about (re)prioritization and/or (re)allocation?** Most countries do not have clear up-to-date information on what the full range of resources are for use – from both domestic and external sources -- nor are there clear monitoring and reporting processes throughout the year on how these have been used (e.g. quarterly reporting). The difficulty many countries and development partners have experienced trying to get this information over recent months with C19 activities has reinforced the need for much better tracking of resource use and accountability for results. How are you prioritizing improvements to governance and accountability in your workplan and budget for now and for the next year(s)?
- **What is your ministry doing to improve value for money in health?** There is a growing body of evidence on inefficiencies in health; grasping the opportunity to get more efficient now can have long lasting benefits.[7] Some countries have already taken steps during this crisis to increase the use of telehealth options and the digital economy, as well as to review procurement and purchasing arrangements. Reducing fragmentation of fund flows and parallel administrative arrangements to improve efficiency of public spending on health are important reforms.
- **Is your country taking a whole-of-government approach to prepare, coordinate and respond to the dual health and economic threats such as those posed by C19? Is your ministry taking an active role in this?** Ministries of finance and other central agencies have a key role to play in this coordination and oversight of resource management working closely with health and other line ministries. Where external resources are wanted, having transparent up-to-date information is very helpful for development partners to inform their support efforts.
- **Is your ministry actively using health and finance information to inform your decision making and discussions with government and development partners?** Unless managers are requesting and using regular information updates, these reports will not be generated. This requires fit-for-purpose health and finance systems with software and hardware that is adequately maintained and staff trained in its use. What is your ministry doing to have these basic systems and processes in place? Most Pacific countries do not have quality financial reports shared with managers each month or even quarterly to help inform decision making on implementation of planned activities. **There is often no regular up-to-date health information to review on service outputs and indicators which means that it is difficult for managers to make evidence informed choices to (re)prioritize and/or (re)allocate resources for better service delivery results;** most health systems are at least six months behind, and some have not published health data for a number of years. **While there may be few deaths from C19 in the Pacific, the lack of routine monitoring and the interruptions to essential service delivery may see an increase in preventable deaths from broader poor service delivery in maternal and child health, non-communicable diseases and other causes.** How are you prioritizing improved data for decision-making in your workplan and budget for now and for the next year(s)?

[6] Pacific countries are among the most vulnerable in the world to natural hazards and climate change as highlighted in https://www.worldbank.org/content/dam/Worldbank/document/EAP/Pacific%20Islands/climate-change-pacific.pdf & https://reliefweb.int/sites/reliefweb.int/files/resources/WorldRiskReport-2019_Online_english.pdf. It is predicted that the frequency of new or (re)emerging disease outbreaks and other natural hazards will become more frequent and more severe (https://www.unenvironment.org/resources/report/preventing-future-zoonotic-disease-outbreaks-protecting-environment-animals-and). The experience of Pacific countries over recent months attest to this, with many having to deal with dengue fever outbreaks as well as the immediate effects of Tropical Cyclone Harold alongside efforts to prepare for and response to C19 (this was preceded by a devastating measles outbreak in late 2019 for at least one Pacific country, with many other countries needing urgent support to prevent its wider spread). PNG also had to kill substantial numbers of pigs in early 2020 to prevent the spread of African Swine Fever.

[7] There is international acceptance that all health systems have inefficiencies and countries can do better with existing resources. In the 2010 World Health Report (https://www.who.int/whr/2010/en/) WHO estimated that globally 20–40% of all resources spent on health are not used effectively. Examples of where waste occurs include through inappropriate skill mix of health workers and inefficient use of facilities; unnecessary spending on, or use of, medicines; and overuse of equipment, investigations and procedures. There is a growing body of global research now available on these issues to inform country action.

- **Does your ministry have an updated Infection Prevention and Control (IPC) Plan? How is the implementation of the IPC plan being monitored?** If this doesn't include waste management, how is that being monitored? C19 has shown that IPC needs a lot more attention in most countries, as this is a basic foundation for providing quality of care.[8] Having adequate hand washing facilities that are in working order and with necessary soap supplies in health facilities is still a real challenge in many places. These simple measures are key to basic protection of both patients and health workers. How are you prioritizing IPC and broader quality of care in your workplan and budget for now and for the next year(s)?
- **How are you monitoring whether your supply chain for pharmaceuticals and medical supplies is working well?** C19 has highlighted many concerns with supply chain management: from procurement, storage, distribution, waste management and the ongoing monitoring of the use of commodities (this includes oversight of antimicrobial use to help prevent the looming threat of antimicrobial resistance, etc.). How are you prioritizing improvements to supply chain management in your workplan and budget for now and for the next year(s)?
- **Do you have the essential in-country diagnostic services needed if your or other countries borders are shut?** C19 has reinforced the value of having quality essential molecular diagnostic capacity at the country level. What needs to be done to build and maintain this laboratory support in particular? Where it is not feasible to undertake diagnosis in-country, what steps have been taken to ensure specimen shipment to reference laboratories remains open? How are you prioritizing improvements to diagnostic services in your workplan and budget for now and for the next year(s)?
- **How is your ministry working with finance and others to examine options to mobilize adequate domestic revenues, including via pro-health taxes that will improve sustainability of financing government spending?** In the medium term, it may be an opportune time for countries to consider significantly ramping up pro-health taxes – taxes on goods and services that have harmful health effects such as on tobacco, alcohol, sugar-sweetened beverages, and carbon emissions – and to remove subsidies on fossil fuels. Given declining outputs and government revenues resulting from the pandemic, pro-health taxes can help plug some of the shortfalls and are far less likely to face political opposition given the tightening fiscal environment. Given the nature of excise duties, pro-health taxes may be easier to collect than broader consumption taxes. Soft earmarks of revenues raised and targeted towards pro-poor health programs could help offset some concerns related to the potential regressivity of some such measures. Recent analysis shows that if one takes into account the externality of increased health costs, these taxes are not regressive and likely to be pro-poor when linked to progressive health policies such as UHC expansion to the poor.

The time to address these issues is now. If health ministries do not act quickly, it is likely that current economic circumstances will force changes upon them. Such forced changes may not deliver the health outcomes that the health ministries would select themselves. Development partners have a role to play by providing clear information and delivering requested support in a quality and timely way.

[8] The findings from the Lancet Global Commission on High Quality Health Systems highlighted that *people are twice as likely to die from receiving poor quality care than from going without care*. https://www.thelancet.com/pb-assets/Lancet/pdfs/quality-health-systems-commission/S2214-109X(18)30386-3.pdf