Double Shock, Double Recovery and Health Financing

At a glance

This paper summarizes the economic impact of ongoing shocks in the Pacific and proposes priority actions to safeguard health financing levels to support Pacific Island Countries' efforts to build sustainable systems and advance Universal Health Coverage[1].

Pacific Island Countries are in a precarious position as they deal with the continuing economic and health shocks from the COVID pandemic and ongoing global geopolitical and climate related events.

- **Many countries are only projected to recover to 2019 pre-pandemic levels of economic activity in per-capita terms by 2025**, and some are unlikely to recover until 2027 or later. In addition, some countries are at high risk of debt distress. Governments will need to repay interest on loans, affecting the capacity to increase public investment, including in human development.

- **Real (adjusted for inflation) per capita health expenditure will face significant pressure in coming years**, even as Ministries of Health continue to receive and use a significant share of domestic budget and expenditure, with substantial support from development partners (which remains difficult to track in most countries).

- **Stronger corporate and clinical governance is a pre-requisite to more efficient use of health resources and achieving quality health results**. Pacific Island countries are encouraged to reinvigorate governance mechanisms that will focus on and improve health sector performance, informed by timely and fit-for purpose data and analytics. More active quality debate is needed among senior health officials and partners on reported changes in UHC Service Coverage and related indicators.

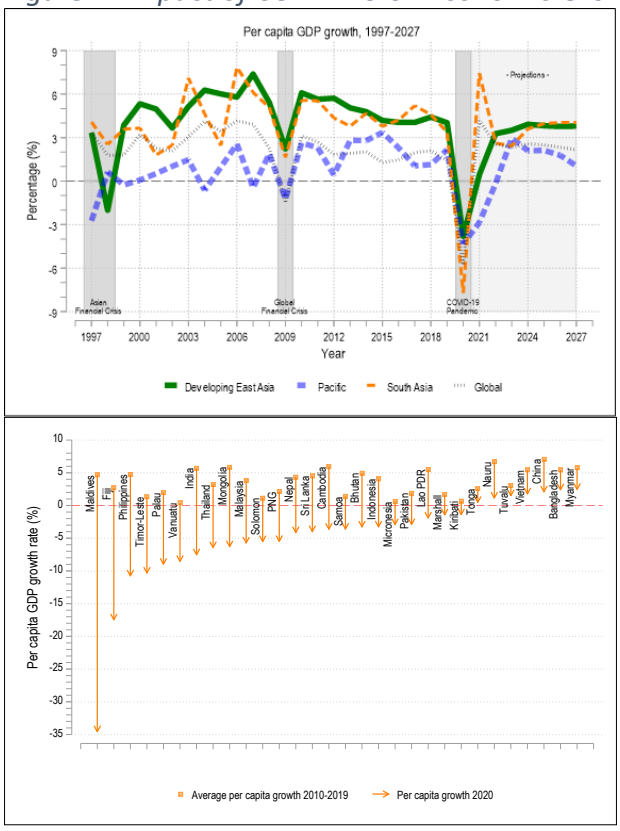
- **Improving the quality of expenditure** is essential for getting the most from each dollar invested in health and to make the case for maintaining or strategically increasing the allocation to health from Ministries of Finance and development partners.

[1] This paper draws on recently completed analysis such as the World Bank's *Pacific Economic Update*, the *Double Shock Double Recovery* draft publication, and the World Bank's *Public Expenditure Review* of the nine smallest Pacific Island member countries: Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, Samoa, Tuvalu, Tonga and Vanuatu. These documents will soon be publicly available.

Current situation

COVID was both a health shock, and an economic shock. Pandemic-related lockdowns and physical distancing resulted in a global economic contraction in 2020, and among the deepest the world has experienced in almost a century. Over 2019, Pacific global economic growth was similar to global growth, averaging around 2.0%. In 2020, the Pacific countries contracted by an average of -4.3%[2], with **Fiji** and **Palau** seeing some of the largest economic contractions (Figure 1). Some countries like **Tonga** and **Nauru** didn't contract but saw a slowdown in economic growth.

Figure 1: Impact of COVID-19 on Economic Growth

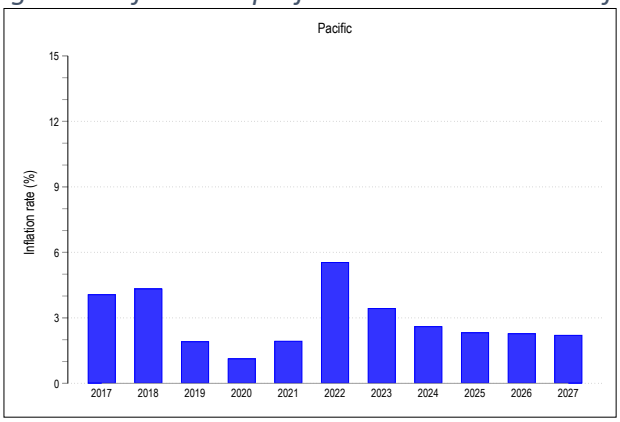


Unlike most of the rest of the world, Pacific Island countries generally did not recover in 2021, and subsequent economic recovery has been hampered by further global developments. Global per capita gross domestic product (GDP) growth went from -5.9% in 2020 to 4.1% in 2021. However, Pacific Island countries largely continued to contract in 2021, likely because COVID reached the Pacific much later than it did in many other countries, and Pacific countries only re-opened international borders in 2021 (**Fiji**) or the end of 2022. Worse

[2] International Monetary Fund, World Economic Outlook database, October 2022.

hit countries in the Pacific include **Cook Islands, Palau** and **Samoa**, where GDP per capita shrunk by -29%[3], -13.4% and -7.1%[4] respectively in 2022. A combination of factors – disruption of commodity markets due to Russia's invasion of Ukraine, pent-up demand from the pandemic, supply-chain challenges, exchange rate depreciations – have resulted in unexpectedly high inflation rates (*Figure 2*), driven in large part by fuel and food price increases. Climate change and related weather events, along with monetary policy tightening, also continue to contribute to poor economic prospects for many countries.

Figure 2: Inflation is projected to rise in the Pacific



	2020	2021	2022	2023
FSM	0.9	2.1	5.8	3.0
Nauru	-6.6	1.2	2.0	2.0
RMI	-0.7	2.6	6.4	2.2
Kiribati	2.5	3.0	5.6	3.3
Fiji	-2.6	0.2	4.7	3.5
Vanuatu	5.3	2.3	4.6	3.4
Samoa	1.5	-3.0	8.8	6.3
Tuvalu	1.6	2.9	5.7	4.0
Sols	3.0	-0.1	3.7	3.6
Tonga	0.4	1.4	8.5	8.9
Palau	0.7	0.5	12.2	8.1
PNG	4.9	4.5	6.6	5.4

As a result, it is expected to take at least several years for economic activity to recover to 2019 pre-pandemic levels. Samoa, recently classified as upper middle income, has now been reclassified as lower middle income, while **Palau** was downgraded from high income to upper middle income. **Fiji** is expected to regain its economic losses only by 2025 and PNG by 2026. Some – including **Nauru, Samoa, Solomon Islands**, and **Vanuatu** – are not projected to recover to 2019 pre-pandemic levels of economic activity in per capita terms until after 2027.

Table 1: Lingering economic impact from COVID-19 as well as additional recent global developments

Did not contract in 2020	**Pre-pandemic 2019 per capita levels of economic activity expected to recover by**							**Not recovered by 2027**
	2021	*2022*	*2023*	*2024*	*2025*	*2026*	*2027*	
Bangladesh China Tonga	Pakistan	Cambodia India Indonesia	Lao PDR Philippines Thailand	Bhutan Maldives Mongolia	Fiji FSM	PNG	Kiribati Palau	Afghanistan Myanmar Nauru

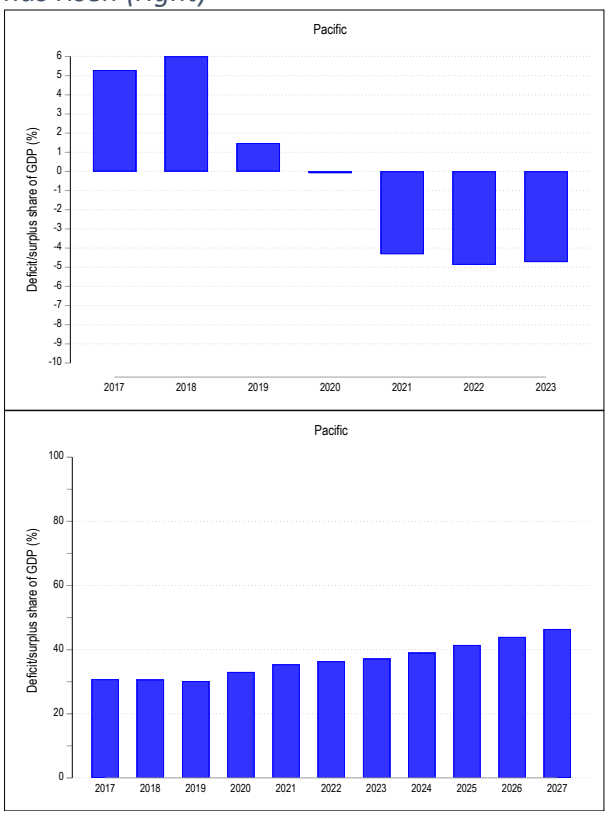
[3] Asian Development Bank, Asian Development Outlook. Cook Islands is not included in the IMF, World Economic Outlook database.
[4] International Monetary Fund, World Economic Outlook database, October 2022.

Tuvalu	Malaysia	Tonga	Samoa
Vietnam	Nepal		Solomon Islands
			Sri Lanka
			Vanuatu

Contracting economies have resulted in a reduction in government revenue and a rise in deficits, leading to a global increase of public debt levels. Most countries significantly increased public spending in 2020-21, not just for the pandemic response but also to implement a variety of mitigative social protection measures, provide stimuli for business and to roll-out COVID vaccines. As a result, many countries increased deficit financing[5], and in countries like **Fiji** and **PNG**, deficits expanded to over 8% of GDP. Pacific countries on average continue to have relatively low levels of debt, but some like **Kiribati, RMI, FSM, PNG, Samoa, Tonga** and **Tuvalu** are at high risk of debt distress, while **Solomon Islands** and **Vanuatu** are at moderate risk of facing debt distress[6].

[5]When the government spends more money than it receives as revenue, the difference being made up by borrowing and other financial interventions.
[6] International Monetary Fund https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf

Figure 3: The Pacific went from surplus to deficit (left), while the public debt's share of GDP has risen (right)



Higher levels of debt come with a higher burden of interest repayments, which in most Pacific countries will likely translate into a reduction in public spending. Combined with slow economic growth forecasts, this is anticipated to limit the ability of governments to increase public investments, including in the health sector. Countries will either (i) *expand* (i.e. constant[7] post interest per capita government spending is expected to increase by at least 2.6% per year) – this includes **Tuvalu**, (ii) *stagnate* (i.e. constant post interest per capita government spending is expected to stay at largely the same levels between 2022-27 as it was in 2019, at most increasing by 2.6% per year) – this includes **Tonga** and **Fiji**, or (iii) *contract* (i.e. constant post interest per capita government spending will decrease on average between 2022-27) – this includes **FSM, Kiribati, Vanuatu, PNG, RMI** and **Solomon Islands**.

Despite economic contractions, public spending on health has largely been maintained. This was mainly due to pandemic-related increases in expenditure on personal protective equipment, quarantine arrangements, surveillance and bed capacity and other forms of emergency response. Real current health expenditure per capita increased from USD576 on average in 2017-19 to USD639 in 2020 across Pacific islands countries[8]. **Cook Islands, Fiji,**

[7] i.e. inflation adjusted
[8] World Health Organization, Global Health Expenditure database

Samoa and **Kiribati**[9] however have seen their real spending on health per capita decrease. Current expenditure on health remained largely public in the Pacific; **Nauru** and **Samoa** are the only countries who saw a larger decrease in the public share of current expenditure on health, while domestic expenditure on health out of total government expenditure remained largely stable (*Table 2).*

Table 2: Expenditure on health largely maintained in the Pacific in 2020

	Real current health expenditure per capita		**Domestic expenditure on health as a percentage of gov. expenditure**		**Public share of current expenditure on health**	
	2017-19 average	**2020**	**2017-19 average**	**2020**	**2017-19 average**	**2020**
Cook Islands	599	531	7	8	89	89
Fiji	210	186	8	8	68	70
Kiribati	174	167	7	8	86	85
RMI	722	731	11	10	93	93
FSM	416	425	5	4	96	95
Nauru	1,142	1,144	9	7	92	86
Niue	1,235	1,319	5	5	91	96
Palau	2,046	2,640	17	23	75	81
PNG	58	64	8	8	70	72
Samoa	218	202	13	12	80	75
Solomon Isl.	97	99	8	10	91	90
Tonga	221	248	8	8	82	81
Tuvalu	832	1,071	12	16	93	93
Vanuatu	96	114	5	6	78	77
Average	**576**	**639**	**9**	**9**	**84**	**85**

Note: figures in red font denote a decline

[9] Kiribati real current health expenditure per capita was higher in 2020 than in 2017 and 2019 (respectively 166 and 163), but the estimated high of 192 in 2018 (which raises questions) impacted the average for 2017-2019.

Future vision

Pacific Island governments will continue to prioritise health budgets and spending in order to provide quality healthcare services to sustain healthy populations. Ministries of Finance (MOFs) and development partners (DPs) will maintain or increase current allocations to health in a strategic way, and Ministries of Health (MOHs) will improve visibility of what is being achieved for these comparatively high levels of public investment.

To do this, MOHs will demonstrate good governance and oversight of health sector performance throughout each year. Working with DPs and other stakeholders, MOHs will conduct regular reviews of performance to assess what is being achieved (health outcomes) with domestic and DP resources (these can include: money, staffing, medicines and supplies, technical assistance etc). Pacific countries will actively pursue more effective ways to get the best outcomes from their finite resources for health, building on the significant investments made in the health sector during the pandemic.

MOHs will actively implement and/or review stalled Role Delineation Policies (RDP)/Packages of Essential Health Services (PEHS)[10], or develop them where they are not available. Service delivery models will be updated as needed based on evidence of progress (or lack thereof) to improve service delivery outcomes. In doing so, MOHs will target vulnerable populations, and seek improvements in priority areas of high cost (e.g., supply chain management (SCM), human resources, referrals) and/or high impact (e.g., primary health care and prevention, integrated health services, etc.).

Examples of recent progress

The health nature of the pandemic meant that health budgets and spending remained protected or even increased in some Pacific countries. This growth in financing came in part from domestic government funds along with a large contribution from DPs. COVID has reinforced the importance of strong, responsive health systems for governments; this provides a good opportunity for MOHs to remain on the forefront of MOFs priority list.

Pacific islands have maintained low out of pocket (OOP) payments for health in recent years. OOP payments averaged 6% of current expenditure on health across Pacific countries between 2017 and 2020. **Fiji** (14%), **Palau** (14%) and **Samoa** (12%) are the only countries with reported OOP payment rates over 10%[11]. This public spending (as opposed to personal private spending) on health is important to maintain for health outcomes of the whole population, particularly for the poor and vulnerable, as they are more likely to obtain health care from largely free-of-charge services at publicly funded facilities.

[10] minimum package of services to be offered through all level of health facilities.
[11] OOP under 15-20% of health spending are levels at which the risk of impoverishment from OOP spending at the time and place of seeking care becomes negligible.

Pacific Island countries used the 'opportunity' of increased pandemic resources to strengthen the broader health system. This includes improvements in disease monitoring and surveillance and laboratory capabilities. Pacific countries also took the opportunity to update important policy documents such as pandemic preparedness plans and infection prevention and control and waste management protocols, which remain useful for routine service delivery and future health emergencies. It is anticipated that Pacific countries will see an improvement in the UHC service capacity and access component of the UCH Service Coverage Index[12] in coming years.

The pandemic has highlighted the crucial importance of a well-functioning, efficient SCM system. This triggered investments from some governments and DPs. Multiple countries increased storage to cope with the significant additional stock of infection prevention and control supplies such as personal protective equipment, vaccine injectables and cold chain. Others have, or plan to, refurbish or rebuild their national medical stores (e.g., **Fiji, Kiribati, Solomon Islands**).

The last three years have also seen an acceleration in the adoption of digital tools across the region. Some countries have used the opportunity of the pandemic to progress the development of integrated, sustainable platforms for recording, tracking and reporting of health inputs (e.g., medical supplies) and health outcomes, and improved network infrastructure (e.g., **Kiribati**). Some have also used the opportunity of patient registration for COVID vaccines as a step towards a universal, unique health identifier (ID) for all citizens: **Samoa** and **Nauru** now have unique IDs for over 90% of citizens with low rates of duplication.

Some countries are taking steps to reinvigorate and improve governance mechanisms following a drop in oversight and reporting on health sector performance during the early years of the pandemic. This includes **Kiribati** recommencing its Health Sector Coordination Committee and related reporting on Service Delivery Statements in 2022, and **Solomon Islands** maintaining health information reporting through much of the pandemic, with the reconvening of its Development Partner Coordination Group in 2023.

Why urgent action is needed now

Public financing for health – via general taxes and in some countries Social Health Insurance – is key for sustaining progress towards UHC. However, progress on UHC has been variable, if not slow, in the Pacific, even before the pandemic – as reflected in the lagging UHC service coverage index in the Pacific compared to peers and countries with similar levels of income. The understandable focus on the pandemic has often reportedly been at the cost of other

[12] The UHC Service Coverage Index includes is an index reported on a unitless scale of 0 to 100, which is computed as the geometric mean of 14 tracer indicators of health service coverage. The tracer indicators are as follows, organized by four components of service coverage: 1. Reproductive, maternal, newborn and child health 2. Infectious diseases 3. Noncommunicable diseases 4. Service capacity and access

health services and priorities – which need to now return to the front of MOH's minds and actions.

Whether or not public spending on health will continue to increase at the same pace it did pre-pandemic is doubtful. The economic outlook remains bleak for many countries. Increases in public spending on health since 2020 were driven by deficit-financed increases in overall levels of government spending. DP support appears not to have been impacted, while anecdotal evidence shows DPs provided large increases of in-kind funding to support Pacific countries prepare for and respond to the pandemic. Much of that support was provided off-system, which means less transparency, coordination, monitoring and evaluation.

The pandemic has hit vulnerable populations hardest. Emerging data shows a considerable increase in reported gender-based-violence in the Pacific during COVID lockdowns and curfews (from a base where rates of violence against women and girls in the Pacific was already among the highest in the world pre-pandemic). Anecdotal evidence of interrupted antiretroviral therapy for HIV patients has had deadly effect, while delays in diagnostics for non-communicable diseases and tuberculosis might have delayed life-saving treatment. Resuming and maintaining critical prevention activities and healthcare services to more vulnerable population is critical.

Pacific island countries are prone to health and climate emergencies, and the next pandemic is a question of 'when', not 'if'. It is imperative that Pacific countries build now on the investments made and the lessons learned during COVID to build resilient health systems that can continue the delivery of routine health services while also responding to the next emergency. In such an environment, a focus on quality, efficiency and equity of public spending is urgent and necessary, not only to enable the attainment of 'more health for the money' but also to help attract 'more money for health'.

Recommendations to be considered by the Heads of Health

Recommendations for governments:

1. MOHs are encouraged to urgently improve the quality of expenditure to: (i) get the most out of existing health dollars, and (ii) make the case for maintaining or strategically increasing the allocation to health from MOF and DPs. Priority attention needs to be given to:
    - High-cost areas where improved efficiency could free up existing money for health: e.g., human resources, SCM of pharmaceuticals and medical, referrals (local and overseas), utilities
    - High impact interventions which have high health returns for investment: e.g., prevention and primary healthcare, roll-out of RDP/PEHS, better integration of services.

2. MOHs need to strengthen corporate and clinical governance as a pre-requisite to achieving more efficient and quality health results. This includes:
    - facilitating regular quality debate at country level on reported progress with UHC and related indicators,
    - adjusting money, staffing and other resources throughout the year where needed and possible to strategically improve health outcomes,
    - continuing efforts to get clarity on what resources are being provided by DPs to complement domestic resources, and so maximise health results.

Recommendations for development partners:

1. Actively and energetically get behind MOHs' efforts to improve quality of expenditure and governance. This includes:

    - responding in a timely and accurate way to government requests for information on what resources are planned and provided to help progress UHC and achieve national strategic plan priorities,

    - contributing to quality debate on progress with UHC and related indicators at country and regional forums. Actively use this analysis to contribute to the preparation, implementation, and monitoring of integrated annual workplans and budgets at country level for prioritised UHC service results.