Strategies for Financing the Healthcare System in Sri Lanka to Foster Resilience Amid the Ongoing Economic Crisis.

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Introduction

The relationship between a country's economic growth and its health outcomes is tightly woven. Promoting good health and investing in healthcare systems improves economic growth by enhancing human capital, reducing poverty, increasing productivity, and fostering social stability. In turn, sustained economic growth gives us the resources to improve healthcare systems, leading to better health outcomes for individuals and communities.

The Sri Lankan healthcare system is commendable for achieving good health outcomes at a relatively low cost.[i] Despite having a moderate allocation of funds compared to other countries, Sri Lanka has achieved a high universal health coverage (UHC) index.[ii] Yet, even with its remarkable health history, Sri Lanka is grappling with healthcare challenges, especially due to the recent economic crisis. Despite limited public spending on healthcare, the country's healthcare system is showing strain. For instance, access to medicine has become difficult, and some non-essential surgeries have been postponed in government hospitals. Such contractions in health service delivery undermine the commendable progress achieved over the years and can result in increasing non-communicable diseases (NCDs), malnutrition among children, communicable diseases, and mental health issues.[iii]

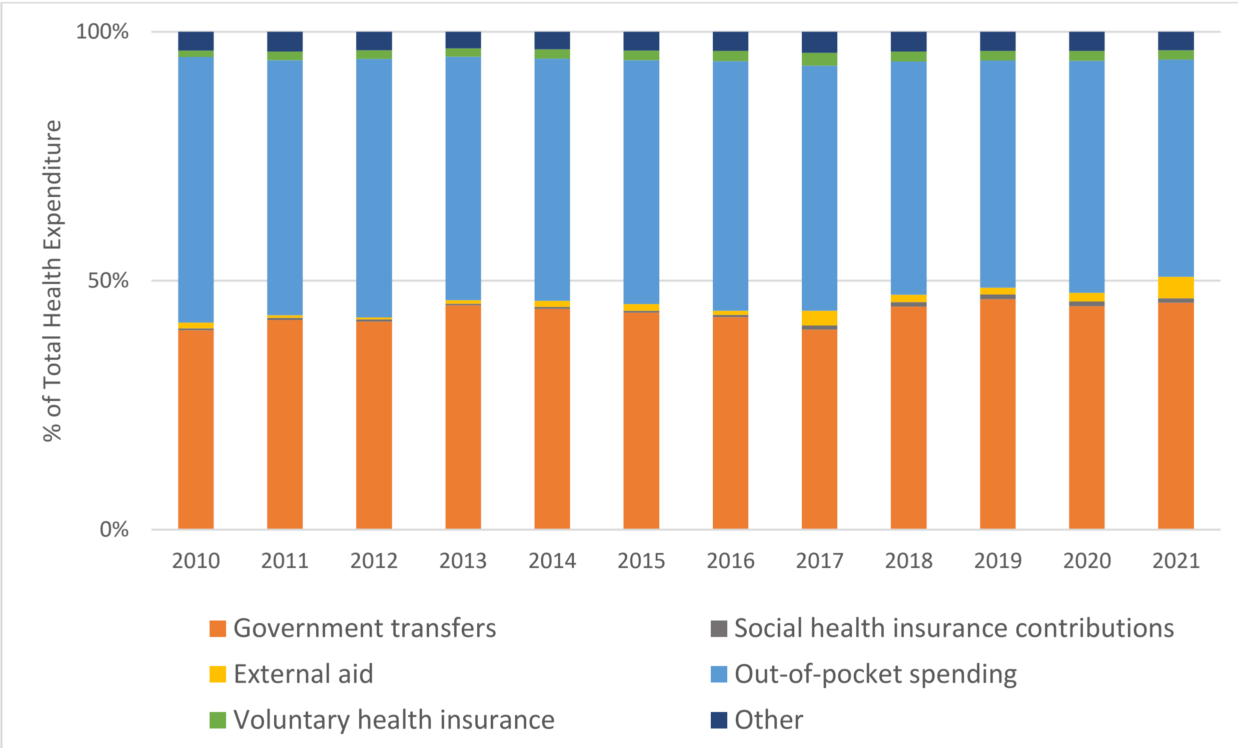
Even before the economic crisis, the country's healthcare system had its gaps in knowledge, capacity, and policy.[iv] The current economic crisis has only magnified these issues. It's a wake-up call, highlighting the need for reforms, evidence-based policies, and strong political commitment to make the healthcare system more resilient.

This article underscores the urgency of addressing health financing as a crucial area in effectively managing the ongoing crisis and fortifying the healthcare sector against potential future challenges. Additionally, it proposes diverse health financing options tailored to Sri Lanka's needs, providing an analysis of the pros and cons associated with each option.

Health Care Financing in Sri Lanka

In Sri Lanka, healthcare financing relies on two main sources, sharing the burden almost equally: (1) government transfers funded through general taxation and (2) direct payments made by households, also known as out-of-pocket-expenditure (OOPE) (Figure 1). Before the pandemic in 2019, the government's contribution to total health expenditure was 46.3%, with households contributing 45.6%. Typically, external donor financing represents a relatively small share, around 1-2% of total current health expenditure. However, there was a significant uptick in the share of external donor funding, reaching 4.33% in 2021, likely attributable to the support received during the pandemic.

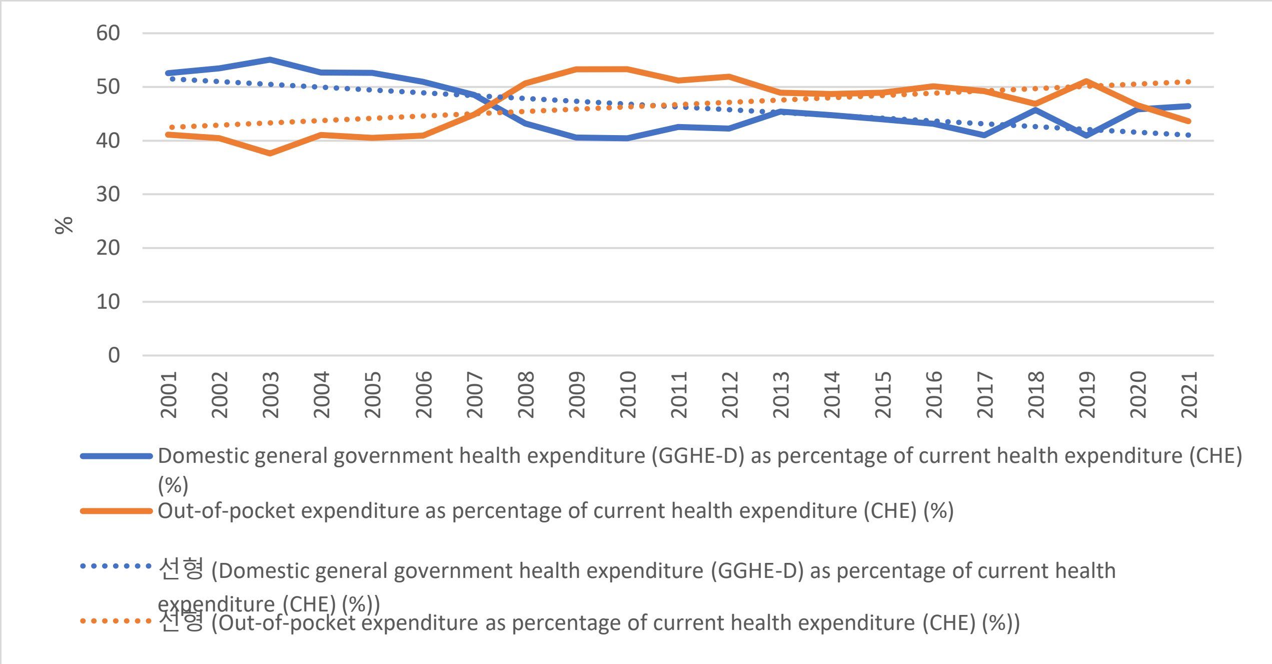
Figure 1: Sources of Health Expenditure -Sri Lanka (2010-2021)



Source: World Health Organization. (2024). *Global Health Expenditure Data Base*. Retrieved January 26, 2024, from World Health Organization: https://apps.who.int/nha/database/country_profile/Index/en

Over the years, the OOPE share has been a significant source of health financing in Sri Lanka (Figure 2). For instance, in certain years, such as 2009, 2011, and 2012, the OOPE share exceeded 50 percent. Factors such as delays in accessing healthcare in public facilities, limited availability of drugs and treatment options, and convenience issues have driven more individuals to seek healthcare from private facilities. Sustaining OOPE at tolerable levels by enhancing the healthcare system is crucial for better health coverage and poverty reduction.[v] This is especially relevant in times of economic crisis, where factors like stagflation and local currency depreciation make private facilities and OOPE more expensive and less affordable. This is evident from the continuous decline in the OOPE share after 2019.

Figure 2: Trends in Government Health Expenditure and OOP Health Expenditure (2000-2021)



Source: World Health Organization. (2024). *The Global Health Observatory*. Retrieved January 26, 2024, from World Health Organization: https://www.who.int/data/gho/data/indicators

Sri Lanka healthcare system faces a significant challenge from insufficient government spending on health,[vi] which fails to meet the growing demand for services resulting from epidemiological and demographic transitions. Currently, the government's health expenditure accounts for only about 8-9 % of its total spending. Sri Lanka's commitment to health financing is comparatively lower than its Southeast Asian counterparts and even falls below global averages as shown in the Table 1.

Table 1: Comparative Health Financing Indicators

Indicator	Sri Lanka	Southeast Asia	Upper Middle-Income Countries	Global
Current health expenditure (CHE) as percentage of gross domestic product (GDP) (%)	4.07	5.49	7.59	7.33
Current health expenditure (CHE) per capita in US$	166.18	224.78	575.49	1383.08
Domestic general government health expenditure (GGHE-D) as percentage of current health expenditure (CHE) (%)	46.45	47.19	56.62	53.66
Domestic general government health expenditure (GGHE-D) as percentage of gross domestic product (GDP) (%)	9.49	8.35	12.36	11.22

Domestic general government health expenditure (GGHE-D) as percentage of gross domestic product (GDP) (%)	1.89	2.88	4.29	4.08
Out-of-pocket expenditure as percentage of current health expenditure (CHE) (%)	43.64	36.35	29.97	28.16

Source: World Health Organization. (2021). *Global Health Observatory Data Repository*. Retrieved January 26, 2024, from World Health Organization: https://apps.who.int/gho/data/node.main.HEALTHFINANCING

Health Care Financing Options for Sri Lanka

Countries employ diverse health financing mechanisms to fund their healthcare systems, including general taxation, social health insurance (SHI), mandatory health insurance, voluntary health insurance, community-based health financing, OOPE, and external aid and donor financing. Moreover, countries frequently utilize a blend of these financing mechanisms to secure ample and sustainable funding for their healthcare systems. The precise combination of financing sources can differ based on factors like a country's economic situation, political context, and the healthcare system's objectives. This section introduces various health financing options suitable for Sri Lanka, drawing insights from experiences in other countries.

Social Health Insurance (SHI)- SHI is a way of financing and managing healthcare that relies on risk pooling. It combines the health risks of the population with contributions from individuals, households, businesses, and the government. This system provides protection against both financial hardship and health issues, making it a relatively equitable method of healthcare financing. In fact, SHI is widely used in many countries to achieve UHC.

To replicate the successes of SHI seen in many developed countries, many developing and middle-income countries have attempted to implement similar systems. The international experience with SHI schemes offers compelling evidence of improved health outcomes. Countries like Thailand, Indonesia, and China have adopted SHI systems and witnessed significant improvements in health.

However, while SHI has its benefits, it also comes with challenges and implementation issues. These include dealing with a substantial informal sector[1], managing high administrative costs, and the difficulty faced by smaller countries in generating enough revenue for UHC due to their smaller populations. These challenges are relevant to Sri Lanka as well, with the substantial informal job sector being a particularly significant hurdle for developing nations.

User Fees - User fees are charges levied on individuals when they access healthcare services such as medical treatment, medications, and other healthcare services. The reasoning behind user fees

[1] The informal sector encompasses economic activities not regulated or monitored by the government or any institution, and they're not reflected in official statistics. Typically, these activities involve small-scale or unregistered businesses. Key features of informal businesses include the absence of formal contracts, legal protections, and social security benefits.

includes cost recovery promotion, discouragement of unnecessary or inappropriate use of healthcare services, and the idea that individuals should contribute to their healthcare expenses. Consequently, user fees are commonly employed in healthcare systems with limited financial resources, where other financing mechanisms may not cover all healthcare costs.

Due to insufficient public health spending, user charges are widely used in many low-income and middle-income countries. User fees offer advantages, such as revenue generation and efficiency in resource allocation by discouraging overuse of healthcare services and ensuring those who can afford to pay contribute towards their healthcare cost. However, evidence also indicates that user fees can impact disproportionately on low-income individuals[vii] thus leading to exacerbating existing socio-economic inequalities in health. These adverse effects can be minimised by introducing exemptions and waivers, setting fee caps and limits, and strengthening primary healthcare services. Nevertheless, concerns persist about user fees' impact on access to essential health services and their financial burden,[viii] particularly for poorer households, despite the presence of exceptions.

Public Private Partnerships (PPPs) - In the face of constraints in public sector financing PPPs offer a valuable means to jointly provide healthcare services, infrastructure, or other health-related activities. PPPs comes with various advantages, including improved resource mobilization, thanks to the private sector's managerial efficiency and entrepreneurial drive. Moreover, private sector investments introduce expertise, innovation, technical knowledge, and advanced technology, which enhance service delivery. Countries like Mexico and India extensively utilize PPPs for healthcare service delivery.

Despite these positives, PPPs also raise concerns about affordability and equity. PPPs may result in increased patient costs, potentially limiting access for low-income individuals and exacerbating health inequalities. PPPs should be employed exclusively when these prove to be the most cost-effective solution in comparison to alternative procurement methods. Additionally, effective implementation of PPPs requires readily accessible capacities for planning, designing, negotiating, and monitoring long-term and complex transactions. It is crucial to establish robust institutional checks and balances to mitigate fiscal risks, maintain the integrity of procurement processes, and protect the public interest.[ix]

Health Financing Options: Sri Lanka's Experiences and Way Forward

Addressing health financing is a critical imperative to effectively manage the ongoing economic crisis and fortify Sri Lanka's healthcare sector against potential future challenges. The escalating out-of-pocket expenditure, diminishing government contribution, and challenges in public spending underscore the urgency for sustainable health financing. Options such as SHI, user fees, and PPPs are available for Sri Lanka's consideration and the country has already gained some limited experiences in implementing these options.

For Sri Lanka, adopting an approach centered on a SHI mechanism has been recognized as the optimal strategy.[x] This approach aims to enhance resource mobilization while ensuring equitable and efficient utilization, along with bolstering accountability. Sri Lanka has already established a SHI scheme known as '*Agrahara*,' which was initiated in 1997 and underwent upgrades in 2016. This initiative reflects the government's growing interest in SHI schemes aimed at reducing OOPE and catastrophic health expenses. Administered by the National Insurance Trust Fund, the scheme provides coverage for public sector employees, supplementing the existing tax-funded healthcare system. However, a recent review revealed shortcomings in the scheme's effectiveness, particularly in preventing individuals from facing catastrophic healthcare costs. [xi] These shortcomings are attributed to low utilization rates and limited coverage for family members and certain medical conditions.

Sri Lanka has implemented user fee systems in the past, such as the *Sri Jayawardenepura* General Hospital charging patients since its establishment in 1984, and the utilization of a 'paying wards' system at the Sri Lanka National Hospital. The Budget 2023 proposed reinstating the paying wards system in government hospitals, a measure that has received Cabinet approval subsequently. While introducing a more comprehensive user fee system in the current economic climate may face political resistance due to its potential impact on disadvantaged populations, it warrants serious consideration. Implementing a user fee approach presents an opportunity to generate essential government revenue from those willing to pay, while preserving access to free healthcare services for others.

To date, Sri Lanka has seen limited implementation of PPP arrangements, particularly in areas such as hospital management, infrastructure development, and healthcare service provision. Although there is momentum to broaden the scope of PPP involvement,[xii] reservations persist regarding their utilization in healthcare, primarily due to their potential impact on the principle of universal access to free healthcare.[xiii]

When choosing and moving forward with these options for Sri Lanka, it is essential to learn from past experiences and closely examine international experiences, especially within similar contexts, for each option. While SHI offers equitable benefits, challenges exist in addressing the informal job sector. User fees, despite revenue advantages, raise concerns about socio-economic inequalities. PPPs provide resource mobilization but require careful implementation for affordability and equity. Navigating these challenges demands a tailored approach considering Sri Lanka's unique context.

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[ii] UHC Service Coverage Index: Coverage of essential health services is defined as the average coverage of essential services based on tracer interventions that include reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases (NCDs) and service capacity and access, among the general and the most disadvantaged population.

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