The impact of the economic crisis on the Sri Lankan health financing

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Introduction

Sri Lanka is an island nation located in South Asia with a land area of 65,610 km² in close proximity to the southernmost tip of India and separated from it by a strip of sea. The country has a population of approximately 22.15 million with an annual average population growth rate of 0.53% [1,2]. Sri Lanka was recognized as a lowmiddle-income country with a Gross Domestic Product (GDP) per capita of USD 4013.7 in 2021 [2]. Following the 30-year war that ended in 2009, the country's GDP grew at an average of 5.3% from 2010-2019 driven by factors such as FDIs (Foreign Direct Investments), tourism, the exportation of goods and services, and improved international trade relationships. The GDP growth rate was recorded as -3.6% in 2020 attributed to the COVID-19 pandemic. In 2022, at the peak of the country's worst-ever economic crisis, the GDP growth rate plunged -7.8%, marking the country's greatest contraction in history, following a 3.5% GDP growth in 2021 [3].

Sri Lankan pluralistic health system has been universal and freely accessible to the public since 1930, consisting of the western-allopathic approach and other systems, namely Ayurveda, Siddha, Unani, Acupuncture, and Deshiya chikitsa. Allopathic medical care is the major contributor, of which 95% of inpatient care and 50% of outpatient care are provided by the public sector and the rest by the private sector [4]. According to the ministry of health in Sri Lanka, the government expenditure on health in 2020 was 1.68% of the Gross National Product (GNP). After 40 years since the establishment of the Act of Parliament No.12 of 1952 "The Health Services Act", the first-ever National Health Policy for Sri Lanka was formulated in 1992 which identified many policy issues pertaining to the Sri Lankan health sector concentrating on decentralization of the health administration to the divisional level [4]. Currently, healthcare delivery is decentralized to a major degree and the ministry of health at the central level is responsible for the management of the health services of the country, as the lead agency in providing stewardship to health service development, implementation, delivery of strategies for health sector reform including the promotion of public-private partnership in health, development of health manpower including the enhancement of human resources, administrative and financial management and ensuring the provision of resources for health. The Provincial ministry of health is governed by the minister of health of the respective provincial council which further ensures a healthy population in the concerned province.

Despite the country's civil war that lasted for over two decades, Sri Lanka has achieved a significant progress in human and social development amidst an exacerbated budget deficit, and during the post-war the budget deficit was reduced from USD -3.89 billion in 2008 to USD -1.08 billion in 2020 [1], but with a volatile and a sluggish economic growth. The country's total expenditure on healthcare, both public and private, was 3.9% of the GDP in 2020 [2]. However, equitable distribution of healthcare resources and professionals has been quite challenging considering the economic status of the country. Since the outbreak of the COVID-19 pandemic, Sri Lanka faced an alarming rise in the costs related to healthcare services as the government incurred LKR 117.5 billion of COVID-19 related expenditure in 2020 and LKR 53 billion from January to June in 2021 [5]. With the receding of the COVID-19 pandemic in Sri Lanka, a new challenge has arisen: a health catastrophe stemming from the economic and political crises. Sri Lanka slipped into default in May 2022 for the first time in history [6]. The severe shortage of foreign exchange reserves i.e. USD 7.6 billion in 2019 was reduced to less than USD 500 million in 2022 [7], import restrictions imposed by the government, and fuel shortage have stalled the provision of healthcare services, leading the ministry of health powerless to regularize the health services of the country, disturbing routine surgeries and clinical services [8]. To support the current crisis, the Sri Lankan government and the lending organizations such as World Bank and International Monetary Fund (IMF) have negotiated and approved a 48-month extended arrangement under the Extended Fund Facility of USD 3 billion [9].

Glimpse of health expenditure

The proportion of CHE (Current Health Expenditure) to GDP has changed from 3.87% in 2010 to 4.08% in 2019 at an average and remained at about 3.8% for the nine-year period [10]. The CHE comprises both government and private contributions [11]. External health expenditure has been historically low and is around 1% [11]. The expenditure on public health as a percentage of GDP has fluctuated between 1.6% in 2016 to 1.9% in 2018 [11]. Healthcare spending in regional peers in South-Asian countries has averaged from 2.3% to 5.5% of GDP in recent years and hence, Sri Lanka is only comparable to lower-middle-income Asian countries [5].

The flow of finance

Government is the main financier of healthcare which is provided at no price at the point of delivery. Interestingly, in the Sri Lankan healthcare financing system, the purchasing, pooling, and provider-split are not observed as a government act, though the government is the sole agent for all three. The treasury collects tax revenue and disburses the budget to the central government and provincial councils to ensure equitable and efficient healthcare delivery [12].

Institutions managed by the provincial and local governments are directly funded through the ministry of health and the finance commission via ways of government tax revenue and private spending [11]. Additionally, Army, Navy, Air force, Police, and Prison hospitals are managed by the respective ministries.

A major portion of the total investment in health is allocated to the recurrent expenditure consisting of salaries and wages. This applies both to the central and provincial levels. In 2019, the government was responsible for providing 47.2% of CHE and out of pocket expenditure contributed to 45.6% of CHE. In 2021, the budget allocation to health was LKR 24,500 million. Voluntary Health Insurance (VHI) contributed to about 5% of total private financing, while the private insurance market has shown considerable growth in recent years [11].

The finance commission of Sri Lanka ensures regional development within the country and is responsible for the provincial finances. All nine provinces are expected to engage in relevant developments to minimize inter-regional variations. Provincially funded health programmes and projects to uplift the quality of health services focuses on preventive aspects as health is considered a key socio-economic indicator.

The total financial availability for the provinces consists of the following;

Block Grant

- Revenue share for recurrent expenditure
- Criteria Based Grant
- Province Specific Development Grant (PSDG)
- Development Projects

Together it makes the provincial financial pool of which allocations are made for each sector where health is prioritized, though there is no earmarked allocation for the health sector. Provincial capital health expenditure is mainly for durable and essential items like medical equipment and the recurrent expenditure is mainly for staff salaries.

The Provincial Planning Framework (PPF) is a framework that provides for a uniform set of Sustainable Development Goals (components) and outcomes (sub-components) for each province which allows inter-provincial comparability. After a needs assessment, the finance commission gives its recommendation on necessary budgetary allocations made for components and sub-components to the Treasury. However, the lack of an adequate accepted framework for provincial needs assessment has created issues in efficient fund allocation and mismatches between required allocation and received funds.

Current situation of the Sri Lankan health system

Sri Lanka is currently facing its worst economic crisis since its political independence from British rule, following the COVID-19 pandemic. The COVID-19 pandemic triggered the most extensive economic crisis throughout the globe, but according to the article by Nazeeruddin, the economic crisis in Sri Lanka is not entirely due to the negative effect of the COVID-19 [13]. The researcher highlighted several reasons which led Sri Lanka into the current economic crisis in the study. Huge loans worth of USD 56.34 billion in 2020 taken by governments with higher interest rates compared to previous borrowings from international financial organizations is emphasized as one of the key reasons. The reduction of tax rates caused a huge revenue loss to the government from 11.6% in 2019 to 8%

of the total revenue in 2020 [13]. The reduced number of foreign arrivals from 2,521,000 in 2018 to 540,000 in 2020 crippled the tourism industry in Sri Lanka which generally generated 20% of its national income [13].

In the current context, Sri Lanka is facing many issues such as the lack of drugs and essential medications, migration of healthcare workers, and increased out-of-pocket expenditure due to inadequate financial allocations [14]. The scarcity of drugs is a global problem that spans low-income, middle-income, and high-income countries. Sri Lanka, as a developing country, undoubtedly faced this global issue even before the current economic downfall, yet studies are scarce. Drugs that are at high risk of shortage include essential life-saving medications, cardiovascular medications, oncology medicine, antimicrobials, etc. Parenteral drugs, more specifically sterile injectable drugs have been identified as more liable to shortage than other drugs [15]. The causes of drug shortages are multifactorial and all these will be ultimately affected by an ongoing economic crisis in the island. In literature, the causes of drug shortages have been categorized as difficulty in demand and supply. Supply is affected by a multitude of factors. These include the availability of raw materials, availability of facilities in the manufacturing process, and availability of transport [16]. Therefore, it is apparent that Sri Lanka, with the reduction in foreign exchange available for imports of drugs and raw materials along with the fuel crisis affecting the manufacturing process and transport, is at risk of a noticeable shortage of drugs. The most significant impact has been observed in the shortage of drugs treating cancer [17]. These drugs include bevacizumab, imatinib, paclitaxel, rituximab, anastrozole, and arbiterone acetate [17]. The primary cause for the shortage of these drugs has been identified as the lack of foreign exchange for drugs that are exclusively imported [17]. Such shortages in drugs affect patients

by worsening their disease progression and reducing the likelihood of survival. This is due to the substitution of alternative drugs, delay, and compromise in medical procedures, and difficulty in avoiding medical errors [16].

The issue of the health worker migration in Sri Lanka has been capturing increasing attention over the past years and in 2022, it has further aggravated due to the economic crisis in the country. According to the Government Medical Officers Association (GMOA), nearly 500 doctors have migrated during January to August 2022 [18]. There is a lack of data to assess the exact scope of migration of health workers from Sri Lanka even in the present context. Migration of health workers has mostly been an individual decision; however, the ministry of foreign employment is promoting the migration of skilled workers, notably health workers. The government is promoting circular migration of health professionals in the public sector by encouraging 5 years unpaid leave to work abroad [18], but with the limited pool of skilled healthcare workers there is a need of proper coordination between the different ministries as it is important for better human resource planning. However, the impact on each profession and specialty should be assessed individually.

Conclusion and Recommendations

As discussed in the study, the Sri Lankan health system is currently facing challenges in providing quality healthcare for the general public due to the prevailing economic crisis. The country's health system achieved impressive milestones in the past, disregarding the minimum financial support and issues of equal distribution of healthcare resources and healthcare professionals throughout the country. As the current financial situation seems to exacerbate remaining issues and create new issues such as a shortage of essential lifesupporting drugs, authorities need to reassess on how to provide effective health services to the general public. Public health financing is essential for Universal Health Coverage (UHC) and health sector reform is a necessity with the aim of improving the efficiency and equity, while ensuring the sustainable healthcare financing and provision of public healthcare. In the current context, efficiency improvements in Sri Lanka are essential especially since the government total health expenditure cannot be increased due to the economic issues.

Efficiency gains are achieved through reforms that can be delivered 'within the system' so that the quality of care for the individuals is improved. Sources of inefficiencies have servicerelated (oversupply and overuse of equipment, inappropriate hospital admissions and length of stay, low use of infrastructure, investigations, and procedures), medicine-related (inappropriate and ineffective consumption, use of generics with comparatively higher prices), healthcare worker related (inappropriate or costly staff mix, unmotivated workers), and leakages related (waste, corruption, fraud) components.

Health systems all around the world are under strain, as a result of endless user expectations and goals to meet in the context of limited budgets and limited resources. Countries have been exploring ways to transform their healthcare systems in recent years, while many developing countries are attempting to enhance their health systems [19]. Health Technology Assessment (HTA) is essential for evidence-based decision-making and allocating health budgets towards achieving UHC. HTA systematically evaluates the effectiveness, costs, and health impact of a health technology while considering ethical and equity issues [20].

Implementing an HTA will influence evidencebased decision-making and health financing to gain maximum output from minimal input, while maintaining equity and efficiency. Importantly, Sri Lanka needs an in-depth analysis of the supply and demand side factors related to the healthcare market. Better healthcare financing allocation mechanisms with regard to the provinces, involving needs assessment would improve provincial healthcare.

Author Declaration

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