



# Financing Healthcare in Africa

*Strategic purchasing and fiscal policies  
for public health in sub-Saharan Africa*

## KEYNOTE PAPER

Dealing with COVID-19 in Africa

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## Acronyms and abbreviations

<b>AfDB</b>	African Development Bank	<b>NGO</b>	non-governmental organisation
<b>BRICS</b>	Brazil, Russia, India, China and South Africa	<b>PFM</b>	public financial management
<b>CABRI</b>	Collaborative Africa Budget Reform Initiative	<b>PHC</b>	primary healthcare
<b>DIB</b>	Development Impact Bond	<b>PPE</b>	personal protective equipment
<b>FAO</b>	Food and Agricultural Organization of the United Nations	<b>PPP</b>	public–private partnership
<b>IMF</b>	International Monetary Fund	<b>SIB</b>	Social Impact Bond
<b>LM</b>	line ministry	<b>SSA</b>	sub-Saharan Africa
<b>LMIC</b>	low- and middle-income country	<b>UHC</b>	universal health coverage
<b>MoFs</b>	ministries of finance and budget	<b>WB</b>	World Bank
<b>NCDs</b>	non-communicable diseases	<b>WHO</b>	World Health Organization

# 1 Introduction



## Background on CABRI's work in health and public financial management

The Collaborative Africa Budget Reform Initiative (CABRI) works with governments to help deliver more functional public financial management (PFM) reforms. One of CABRI's key activities is to facilitate peer learning and exchange through themed dialogues. One of the key themes of the dialogues is the improvement of the value for money delivered by public expenditure, including in agricultural, education, health and water and sanitation. Past dialogues in the health sector include exploration of specific country subject matter, for example a 2011 workshop on maternal and child health in Ghana, one on equity and efficiency in Burkina Faso in 2012, and one on value for money in health in Nigeria in 2019. Thematic dialogues have included 'Efficiency in Health Spending', held in 2016, and, in the wake of the 2014 Ebola epidemic crisis, a policy dialogue on 'Financing Catastrophic Health Epidemics', held in 2015.

In 2020, the policy dialogue delves deeper into the subject of efficiency in health financing in Africa by exploring two emerging trends within health financing – the use of fiscal and economic policies such as taxation and strategic purchasing – to increase the efficiency of the health system. Strategic purchasing for health is a tool that is implemented primarily by the health sector and procurement counterparts within government to improve the value of resources within the sector by increasing the efficiency of the system. Fiscal policies such as taxes are not generally considered the purview of the health sector; however, recent trends in their use to achieve public health outcomes while raising earmarked funding for public health programming presents an opportunity for increasing health system efficiency and effectiveness.

The policy dialogue is coming at a time of significant health system upheaval which has been caused by the SARS Cov-2 pandemic which has spread across the globe since the beginning of 2020, affecting almost every country on earth. The immediate and long-term impacts of COVID-19, as it is more commonly referred to, will be discussed in detail in this paper, and the potential implications for the use of both strategic purchasing and fiscal policies will be explored.

The objectives of this public health dialogue are to:

- Discuss the role and relevance of strategic purchasing and fiscal policies for public health in the African context with case study illustrations of the use of both tools in some African countries;
- Explore the different types of strategic purchasing tools and discuss their applicability and relevance to different health system contexts;
- Consider how the pre-COVID-19 health system context compares with the post-COVID-19 era; and
- Discuss the relevance to and implications of the pandemic in the use of strategic tools for increasing health system efficiency.

The policy dialogue will bring together officials from ministries of finance and budget (MoFs), health, procurement offices and other related line ministries (LMs)<sup>1</sup> to discuss the role and functions of the government in strategic purchasing and in implementing fiscal policies for health. Respective government representatives will be given the opportunity to share their country experiences in an environment of peer learning and exchange.

This background paper focuses specifically on how strategic purchasing in health and fiscal policies can improve the effectiveness of public policy in healthcare. The paper is based on a review of existing literature and the lessons from the three case studies undertaken for the dialogue.

## Fiscal policy and strategic purchasing for health in Africa

### Context

Health systems in the sub-Saharan African (SSA) context have been facing increasing challenges as countries transition from low- to middle-income status. One of the challenges in growing economies is the increasing prevalence of a double burden of diseases, which presents as the co-existence of a persistent infectious, maternal and child health challenge, along with a growing burden of chronic non-communicable diseases (NCDs). NCDs present a specific challenge as they are long-term illnesses requiring lifelong treatment, which many SSA countries are not properly prepared to address. At the same time, graduating from LIC to MIC status leads to reclassification amongst donor partners who transition

1 Other ministries may be included, such as those of industry, trade, water and environment.

out of providing financial and technical support to these countries for issues ranging from malaria prevention and control to immunisation support. Effectively transitioning to self-dependence in managing health systems has proved challenging for many countries across the globe. Additional budgetary pressure also comes from the looming debt crisis putting many countries on the continent on guard,<sup>2</sup> with potential impact on health budgets which suffer when faced with competing needs and interests.

In response to these budgetary pressures, many African countries are becoming more interested in pursuing inventive evidence-based ways of increasing financing, for example, through the use of innovative financing instruments, increasing efficiency gains through tools such as strategic purchasing and the use of instruments which have a positive impact on public health while increasing availability of resources for health such as health taxes.

### **Importance of fiscal policy for public health in this context**

Fiscal policy is the means by which the government adjusts its spending and revenue through the use of taxes, subsidies and other tools to influence the broader economy. By adjusting public expenditure and tax revenue, the government can affect the economy by either increasing or decreasing economic activity in the short term. Fiscal policies for health are targeted instruments which aim, primarily, to influence public health outcomes through increasing or decreasing consumption of given products. Fiscal policies consist of: (i) taxes meant to reduce consumption of a product/product group that may be harmful, and (ii) subsidies aimed

at increasing the consumption of a product that may be beneficial for health. The health outcomes are the primary purpose for fiscal policies; however, as a secondary outcome, well-designed fiscal policies also raise revenues for health and influence the market to produce fewer harmful products while encouraging the production of healthful products. Table 1 provides examples of taxes and subsidies used to influence public health outcomes. Fiscal policies for health have been shown to be effective in promoting healthy behaviours and therefore reducing the human, economic and health system consequences of ill-health.

**Role of the government:** Fiscal policies are most effective when public institutions, governance and credibility are strong, the design and application of the fiscal tools are appropriate, and consumers' and producers' responsiveness to a price signal is high.<sup>3</sup> In fiscal policies for health, the government is responsible for passing legislation where required, designing the policy, implementing and enforcing the regulations. This requires political will, technical capacity to design an optimal fiscal policy and a regulatory infrastructure that can ensure that policy is implemented and enforced.

**Levels of expenditure:** The level of input in the design and administration of health taxes is far outstripped by the revenues raised from such measures. For example, it is estimated that governments across the globe collect up to US\$ 250 billion a year in tax revenues from tobacco taxation.<sup>4</sup> These revenues can be ploughed back into health budgets as is recommended by the World Health Organization (WHO). Subsidies, however, require a higher level of input in terms of public expenditure.

**Table 1:** Examples of fiscal policies and tools

<b>Taxes</b>	i.	Sales tax, excise tax, import duties (e.g. on tobacco, alcohol)
	ii.	Pricing policies (e.g. minimum pricing)
<b>Subsidies</b>	i.	Direct subsidies (e.g. for increasing production and consumption of healthy foods)
	ii.	Free provision of services at point of care (e.g. immunisation, antenatal, Under-5 health services,
	iii.	Tax incentives (e.g. tax breaks for subscribing to health insurance)

Source: Nugent, R. & Knaul, F. (2006). *Disease control priorities in developing countries: Fiscal policies for health promotion and disease prevention*.

2 <https://www.economist.com/middle-east-and-africa/2020/06/06/african-governments-face-a-wall-of-debt-repayments>

3 <https://www.ncbi.nlm.nih.gov/books/NBK11714/>

4 [https://www.tobaccofreekids.org/assets/global/pdfs/en/strategic\\_investment\\_tobacco\\_tax\\_revenue.pdf](https://www.tobaccofreekids.org/assets/global/pdfs/en/strategic_investment_tobacco_tax_revenue.pdf)

## Importance of strategic purchasing for health in this context

Strategic purchasing for health is a central element of improving health system performance and making progress towards universal health coverage (UHC), especially in the context of constrained resources. The goal of strategic purchasing is to acquire more value out of money spent on health. 'Value' in the context of UHC refers to the ability to provide coverage to more people with better services and to ensure financial protection within the constraints of available resources.<sup>5</sup> Traditional passive purchasing, which is the most common method of acquiring goods and services in many low- and middle-income countries (LMICs), involves the allocation of fixed budgets to service providers by ministries of health without engaging in an assessment of need or using the purchasing process to influence the quality and quantity of goods and services provided.<sup>6</sup> Strategic purchasing, however, is an active, evidence-based engagement in defining needs and input required to satisfy those needs, and using this information to identify the most cost-effective way of procuring the goods and services necessary to maximise societal objectives.<sup>7</sup> The benefits of strategic purchasing are two-fold: the reduction of losses due to inefficiency in the system related to passive purchasing, and the improvement of system performance through the use of incentives and disincentives which modify behaviour.<sup>8</sup> There are various tools for strategic purchasing aimed at different elements of the health system. Table 2 gives an overview of some of the most common strategic purchasing interventions in public health.

Strategic purchasing establishes a relationship between the government which can be the purchaser or can appoint an independent purchasing entity with providers based on a contractual agreement specifying desired outcomes and an incentive structure aimed at increasing system efficiency.

The provider interacts with the end-users, usually patients, who also have an independent relationship with a purchaser for verification of the process outcomes. Figure 1 (overleaf) illustrates this.

The impact of strategic purchasing has been varied in terms of the tools used and the context of application. As further elaborated in the appended case studies, Ghana's strategic purchasing approach of prioritising PHC has been shown to be effective in improving efficiency and health outcomes. Other tools such as performance-based financing have had mixed results, suffering from high transaction costs and uneven impact. The relevance and applicability of a strategic financing tool to any setting will need to be assessed critically and employ a problem-solving approach.

**Role of the government:** In a strategic purchasing relationship, the government typically plays the role of the purchaser of health services, medical products and supplies on the basis of the specific nature of the purchasing arrangement. In many LMICs, the governance architecture in health systems (in particular, with respect to purchasing) function poorly, are underdeveloped or even absent.<sup>9</sup> Another challenge is the fragmentation and lack of co-ordination in policy and oversight of procurement functions between different government actors, which, especially in poorer country settings, leads to a highly inefficient bureaucracy that can also be the source of resource leakages. The governance of an effective strategic purchasing mechanism requires a strong legal and regulatory framework to regulate the procurement relationship. In addition to the governance structure, the government also requires human resources with the technical capacity to design the strategic purchasing agreement, and governance capacity to oversee the implementation of the agreement. In strategic purchasing, a strong monitoring infrastructure is necessary to form the basis for incentive structures.

**Table 2:** Examples of strategic purchasing actions

- Prioritising primary healthcare (PHC)
- Using incentives to limit the provision of high-cost services
- Paying providers relatively low prices for high-cost but low-priority services
- Using diagnostic-related groups together with a global budget to control overall levels of spending
- Linking some part of payment to performance (performance-based financing)
- Introducing co-payments for patients who self-refer to hospitals or specialists, bypassing primary care
- Negotiating the price of medicines, for example by using reference pricing or information on cost-effectiveness.

Source: WHO (2019). *Moving from passive to strategic purchasing*. [https://www.who.int/health\\_financing/topics/purchasing/passive-to-strategic-purchasing/en](https://www.who.int/health_financing/topics/purchasing/passive-to-strategic-purchasing/en)

5 <https://r4d.org/blog/qa-strategic-purchasing-health/>

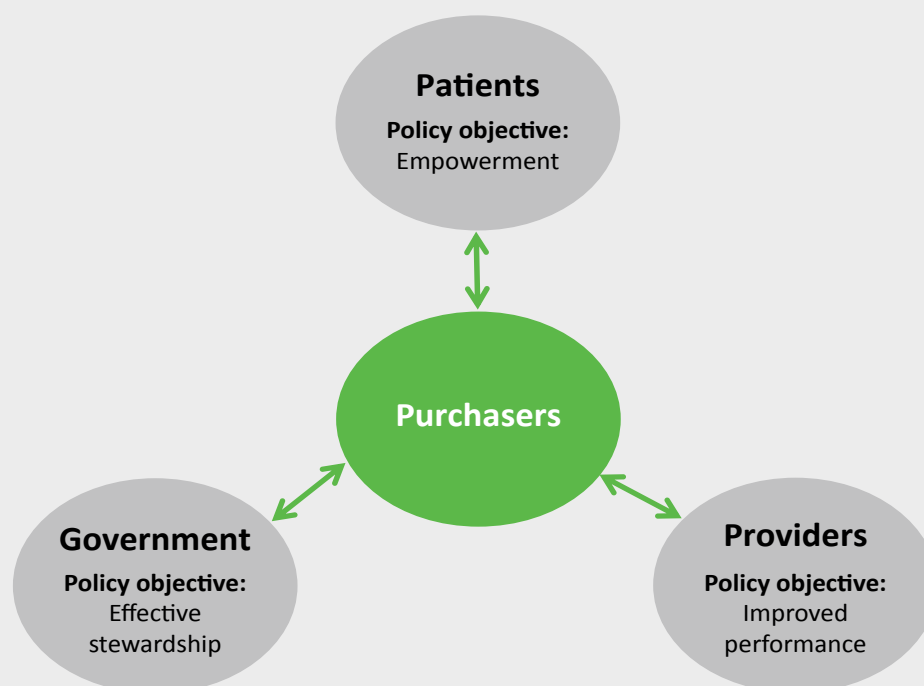
6 <https://www.r4d.org/blog/qa-strategic-purchasing-health/>

7 [https://www.who.int/health\\_financing/topics/purchasing/passive-to-strategic-purchasing/en/](https://www.who.int/health_financing/topics/purchasing/passive-to-strategic-purchasing/en/)

8 [https://www.slideshare.net/COP\\_HHA/strategic-purchasing-30-september/1](https://www.slideshare.net/COP_HHA/strategic-purchasing-30-september/1)

9 <https://apps.who.int/iris/bitstream/handle/10665/259423/9789241513319-eng.pdf?sequence=1>

**Figure 1:** Relationship between key actors in strategic purchasing



Source: Sanderson et al. (2019). *What's needed to develop strategic purchasing in healthcare?*

**Level of expenditure:** Strategic purchasing requires the purchaser to have sufficient purchasing power in order to stimulate the required change effectively across an entire health system. Therefore, the size of the pooled funding made available for purchasing of the goods and services influences the service delivery mode and provider performance. Fragmentation limits this purchasing power: lack of coherence between multiple purchasers as to the composition of the benefits package, the payment systems and rates, for example, limits the potential efficiency gains of strategic purchasing efforts.<sup>10</sup> The most common example of this is fragmented purchasing of health services by different purchasers (e.g. subnational governments) in a decentralised system. This principle is also the basis for considering

strategic purchasing across borders, such as in the case of pooled purchasing of medical products and equipment to enable negotiated pricing.

**Planning and budget processes:** Planning and budgeting for a strategic purchasing intervention requires the assessment of demand, identification and costing of the benefits package, development of the payment mechanism, identification of accredited goods/service providers and the drawing up of an agreement on the process including provisions for performance incentives, if required and, finally, the development of the quality assurance and verification mechanism by which outcomes will be assessed prior to payment.<sup>11</sup>

<sup>10</sup> <https://apps.who.int/iris/bitstream/handle/10665/259423/9789241513319-eng.pdf?sequence=1>

<sup>11</sup> <https://apps.who.int/iris/bitstream/handle/10665/259423/9789241513319-eng.pdf?sequence=1>

## 2 The COVID-19 pandemic and implications for disruption of health and public policy systems

The diversion of resources to the management of COVID-19 by national governments and by donors in SSA countries is already leading to disruption in provision of essential and routine health services.<sup>12</sup> The ongoing COVID-19 crisis began as an outbreak of an unknown respiratory illness in Wuhan, China in November of 2019.<sup>13</sup> Since then, the virus has spread across the globe causing an unprecedented global health, economic and social crisis. Health systems across the world, including those in wealthy countries are grappling with a myriad of challenges.

COVID-19 outbreaks in countries present as a rapid proliferation in cases of a highly contagious disease in immune-naïve populations, almost always with health systems unprepared and under-equipped to manage the condition while protecting their populations and frontline health workers. Even though most SSA countries have been

spared the staggering caseloads seen in worse hit countries in the Northern hemisphere (as of May 2020), the lack of resources to manage ongoing outbreaks and to anticipate potential larger outbreaks is a significant concern. Loss of lives, especially those of frontline health workers who are most at risk of exposure, will only further cripple weak health systems.

In the immediate term, countries will have to expand their fiscal space for health significantly within a constrained budget. Figure 2 illustrates the different options available to countries to marshal the funds required to mount an effective response against COVID-19. These, however, are temporary stop-gap measures which will have to be followed by sustained investments in the health system, as the COVID-19 pandemic continues to unfold, and in its aftermath over the next few years.

**Figure 2:** Expanding the fiscal space for health for COVID-19 response



Source: CABRI Webinar, April 2020

<sup>12</sup> <https://www.unicef.org/press-releases/covid-19-devastates-already-fragile-health-systems-over-6000-additional-children>

<sup>13</sup> <https://www.nytimes.com/2020/01/06/world/asia/china-SARS-pneumonialike.html>

The diversion of resources to the management of COVID-19 by national governments and donors, the major sources of health funding for systems in SSA countries, is already leading to disruption in provision of essential and routine health services.<sup>14</sup> The disruption of global and local supply chains through air-travel bans, border closures and local lockdown measures put in place to control the spread of the disease are leading to lack of access to medical products and equipment necessary to deal with the COVID-19 outbreak and to conduct routine health services.

The lockdown measures are also disrupting other sectors such as agriculture leading to disruptions in food supply limiting access to healthy food options and with some evidence of a threat of malnutrition in all its forms. The Food and Agricultural Organisation of the United Nations (FAO) is warning that a protracted crisis disrupting the food supply systems will lead to severe consequences across the globe.<sup>15</sup> Finally, the COVID-19 crisis is severely impacting on the global and national economies. A USA congressional report shows a 2 percent monthly reduction in the growth of the global economy, a 13–32 percent reduction in global trade depending on the extent and duration of the global economic downturn.<sup>16</sup> Specific to the African context, the UN Economic Commission for Africa estimates that one month of lockdown across Africa would cost the continent about 2.5 percent of its annual GDP (US\$65 billion), in addition to the wider external shock of lower commodity prices and investment flows.<sup>17</sup> The IMF also projected significant economic contractions in oil-exporting countries, with Nigeria's GDP forecast to fall 3.4

percent this year after growing 2.2 percent in 2019. The full impact, however, will not be known until the effects of the pandemic peak, and may be far worse than predicted.

Over and above the projected negative impact of recession on the health of the population – increased cases of mental ill-health and higher rates of mortality<sup>18</sup> – reduction in public revenues is likely to lead to a reduction in allocation to health at the government level, and in reduced health spending at household level, as meagre resources are diverted to competing needs. During the 2008 global economic recession, countries with UHC pared back benefits and reduced coverage as every sector of government was hit with budget cuts.<sup>19</sup> To maintain the gains made on the road to achieving UHC over the past decades in SSA countries in the face of these challenges and to successfully fight the COVID-19 pandemic, governments will have to adopt policies that increase fiscal space through using the existing resources more efficiently, for example, through strategic purchasing and finding new sources of revenue through the use of fiscal policies such as health taxes.

The LMICs, including countries such as Vietnam, which have, thus far, had the most effective response to the COVID-19 pandemic, are those that have strong primary healthcare oriented health systems. An SSA example is Senegal, which is undertaking mass testing and has resolved to treat every case, however mild, overtaking many developed countries who only have capacity to treat the severely ill.<sup>20</sup> This model is a strong argument in favour of strategic purchasing for health which prioritises PHC.



*The diversion of resources to the management of COVID-19 is already leading to disruption in the provision of essential and routine health services*

14 <https://www.unicef.org/press-releases/covid-19-devastates-already-fragile-health-systems-over-6000-additional-children>

15 <http://www.fao.org/documents/card/en/c/ca8388en/>

16 <https://fas.org/sgp/crs/row/R46270.pdf>

17 <https://www.uneca.org/publications/covid-19-lockdown-exit-strategies-africa>

18 <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4880023/>

19 [https://apps.who.int/iris/bitstream/handle/10665/153804/9789241508063\\_eng.pdf?sequence=1&isAllowed=y](https://apps.who.int/iris/bitstream/handle/10665/153804/9789241508063_eng.pdf?sequence=1&isAllowed=y)

20 <https://www.npr.org/sections/goatsandsoda/2020/05/17/856016429/senegal-pledges-a-bed-for-every-coronavirus-patient-and-their-contacts-too>

### 3 What is different about economic and fiscal policies during the COVID-19 pandemic?

#### Strategic purchasing

Strategic purchasing differs from passive purchasing by focusing on the demand-side factors in the design of a policy, while passive purchasing focuses on supply-side factors. This element of strategic purchasing is challenged in the current environment due to the unprecedented and unpredictable nature of the pandemic. The demands placed on a health system at any one time can change rapidly. This is exemplified by the difference between countries who freed up their healthcare facilities in anticipation of an avalanche of cases which did not materialise, while other countries' health systems have been pushed to breaking point under the weight of COVID-19 cases. In such unpredictable contexts, governments should have emergency response plans with contingency measures to ensure that any changes in the situation can be addressed as they occur.

Supply chains are facing multiple challenges under the current crisis:

- Excessive demand for medical products and supplies to manage the needs of the outbreak;
- Supply shortages due to high demand and hoarding;
- Closure of manufacturing plants as a pandemic control measure; and
- Disruption of global and local supply chains by border closures and cessation of air and land travel as pandemic control measures.

Strategic purchasing, as explained above, has multiple benefits in increasing the efficiency and effectiveness of financial input into a health system, more so in constrained settings. The current crisis presents an opportunity to engage in strategic purchasing, both as a means of responding to immediate demands of the crisis, and to put in place structures that strengthen the healthcare system post-pandemic, as part of a 'build back better' approach.<sup>21</sup> Some strategic purchasing approaches worth considering during the COVID-19 crisis could include:

- **Pooled procurement and reference pricing** for purchasing of personal protective equipment (PPE) and other COVID-related supplies and medical products
- **Public-private partnerships (PPPs)**
- **Social contracting** of non-governmental organisations (NGOs) and other community-based organisations for community testing and contact-tracing; contracting privately owned local pharmacies for testing (including antibody testing)
- **Performance-based financing** for scaling up recruitment of community contact tracers
- **Prioritising PHC:** prioritising the allocation of resources and building capacity for management of COVID-19, maintaining essential services and management of backlog of cases post-pandemic at the PHC level.

**Pooled procurement.** Prior to the COVID-19 outbreak, many countries approached the purchasing of medical products and supplies individually. Procurement of medical equipment is particularly challenging in African countries where suppliers are reluctant to work with governments that place small orders and where forecasting of demand is difficult. Aggregating demand and systematising purchasing in this manner overcomes these challenges, making the pool more competitive than individual countries. A move towards aggregating demand occurred in 2019 when nine middle-income countries<sup>22</sup> in Africa agreed on a pooled procurement mechanism for vaccines and medical products, with the aim of increasing their leverage in price negotiation, vaccine security across borders and access to medicines.<sup>23</sup> Box 1 (overleaf) illustrates the use of pooled procurement in response to the COVID-19 pandemic.

**Strategic public-private partnerships.** PPPs have been a longstanding strategic purchasing instrument for increasing availability and efficiency of resources. PPPs can prove particularly useful in sectors which require significant fixed costs and which are fast evolving, such as pharmaceuticals and biotechnology. During the COVID-19 crisis, various innovative PPPs have emerged as agile methods of ensuring fast and affordable access to funding and medicines to respond to the crisis.

21 [https://www.unisdr.org/files/53213\\_bbb.pdf](https://www.unisdr.org/files/53213_bbb.pdf)

22 Algeria, Botswana, Cabo Verde, Kingdom of Eswatini, Gabon, Mauritius, Namibia, São Tomé and Príncipe, and Seychelles

23 <https://www.afro.who.int/news/nine-african-countries-agree-begin-journey-towards-pooled-procurement-increase-their-access>

### Box 1: Africa CDC's Partnership to Accelerate COVID-19 Testing

The African Union Commission and the Africa Centres for Disease Control and Prevention (Africa CDC) launched the Partnership to Accelerate COVID-19 Testing (PACT): Trace, Test & Track (CDC-T3) to facilitate the implementation of the Africa Joint Continental Strategy for COVID-19.<sup>a</sup> In response to the multiple challenges raised by the COVID-19 crisis, the partnership has developed a platform to pool procurement of supplies to address the pandemic including personal protective equipment (PPE) in an effort to break into the global diagnostics and medical equipment market which became increasingly competitive during the crisis.<sup>b</sup>

The 'specialised agency' has developed a digital purchasing system which allows African governments to jointly order chemical reagents, nasal swabs and, more recently, test kits. The system links African governments with suppliers in China and elsewhere, negotiating a reference price for countries and connecting suppliers with governments. As such, the pooled procurement mechanism overcomes the challenges of individual procurement which were made worse by the dynamics of the pandemic.

The partnership is funded by a number of donors including the Zimbabwean Strive Masiyiwa, founder of Econet, which is also providing technical support to Africa CDC for the creation of the platform. The Mastercard Foundation has also recently announced a donation of US\$ 40 million for the purchase of test kits, training and deploying 10 000 community healthcare workers and 80 surveillance rapid responders to support contact tracing, as well as strengthen Africa CDC's capacity to oversee a continental response to the pandemic.<sup>c</sup>

a <https://africacdc.org/news-item/african-union-and-africa-centres-for-disease-control-and-prevention-launch-partnership-to-accelerate-covid-19-testing-trace-test-and-track/>

b <https://www.ft.com/content/72edfd6a-8300-4944-893d-54d08954df6f>

c <https://africacdc.org/news-item/africa-cdc-and-mastercard-foundation-partner-to-deliver-one-million-test-kits-deploy-10000-community-health-workers-for-covid-19-response/>

Senegal, in what has been hailed as one of the most effective COVID-19 responses globally, developed a US\$1 COVID-19 test kit through a PPP between the public Pasteur Institute and Mologic, a private pharmaceutical devices company. As they argued, 'by manufacturing in Africa there is an opportunity to ensure production is driven by demand and health need, rather than commercial return', aiming to develop a test that would be readily and cheaply available to low income countries within the continent.<sup>24</sup> The alternative tests used in the rest of the world rely on an expensive technology which requires laboratory infrastructure, a crucial deficiency in many LMICs.

### Fiscal policies for health and COVID-19

Broad fiscal policies are being used by governments across the world to serve multiple functions in the COVID-19 context, such as tax cuts and unemployment benefits to reduce financial pressure on households and to support aggregate

demand.<sup>25</sup> Fiscal policies for public health, however, have been far fewer, but can serve important functions as well. They can be a much-needed emergency public health measure; in the city of Delhi in India, for example, the government imposed a 70 percent tax on alcohol in May 2020 to reduce consumption in response to crowding of liquor stores after easing of pandemic restrictions. This 'special corona fee' is intended to raise the unit cost of alcoholic beverages limiting access and, thereby, discouraging scenes of overcrowding (breaking social distancing rules) around liquor stores.<sup>26</sup> The policy will also reduce the impact on rates of alcohol consumption, which are anticipated to rise as a secondary consequence of COVID-19.<sup>27</sup>

Fiscal policies are also under consideration by governments and their partners as a potential source of health revenue post-pandemic. In anticipation of the budgetary shortfall from the pandemic, and the increased need for resources by the health sector to respond to COVID-19, a political Overton Window seems to have opened up for otherwise difficult-to-implement health taxes.<sup>28</sup>

24 <https://www.devex.com/news/why-the-uk-wants-a-new-coronavirus-test-to-be-made-in-senegal-96771>

25 <http://www.oecd.org/tax/tax-and-fiscal-policies-central-to-governments-responses-to-covid-19-crisis.htm>

26 <https://www.theguardian.com/world/2020/may/05/india-imposes-70-alcohol-tax-as-covid-19-lockdown-relaxed>

27 [https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667\(20\)30088-8/fulltext](https://www.thelancet.com/journals/lanpub/article/PIIS2468-2667(20)30088-8/fulltext)

28 <https://www.mackinac.org/OvertonWindow>

## 4 Innovation



### Innovations in strategic purchasing

Innovations in health financing are generally few and far between as the health sector is notoriously resistant to change. However, a recent innovation in strategic purchasing is the use of Social Impact Bonds (SIBs), an innovative financing instrument which has grown in popularity in recent years (see Figure 3 overleaf). SIBs consist of a strategic purchasing component, performance-based financing.<sup>29</sup>

The difference between an SIB and any other performance-based financing instrument is the fact that there is an ‘investor’, usually a private sector entity that fronts the initial investment on behalf of the ‘outcome funder’ that tends to be a government entity or a development financing institution. Where a development partner or philanthropist is the outcome funder, SIBs are referred to as Development Impact Bonds (DIBs). SIBs are used to address three problems in financing for health: raising funding for a health project, providing incentives to attract private sector funding, and tying payment to performance, thereby increasing system efficiency.

The most cited example of the use of a DIB for health in an SSA country is the ‘Cameroon Cataract Bond’, launched in 2018, which aims to provide US\$2 million to scale up access to cataract surgery and care to patients in Cameroon, funded by private entities and backed by private foundations as outcome funders.<sup>30</sup> SIBs and DIBs have garnered much interest in development circles but have been slow to take because they tend to be complex due to the negotiations between all the actors, and have high transaction costs relative to the actual input into the project.

### Innovations in purchasing in response to COVID-19

Complex innovative financing instruments such as the SIB described above are not agile enough to respond to emergency situations such as pandemics, unless they have been constructed with an express aim to do so. In the COVID-19 context, a number of innovations in procurement, supplies and market shaping for medical products have been initiated, such as the Africa Medical Supplies Platform (AMSP). The AMSP was launched in June of 2020 as a partnership for procurement across the African Union offering ‘a unique interface enabling volume aggregation, quota management, payment facilitation as well as logistics and transportation to ensure equitable and efficient access to critical supplies for African governments’.<sup>31</sup>

An upcoming challenge for which African countries are preparing is the competitive access to a COVID-19 vaccine when an effective formula is released into the market. A race for access is already building even amongst the world’s wealthy nations, and Africa is seen to be at a disadvantage.<sup>32</sup> In anticipation of this challenge for Africa and other less economically advanced countries, the Access to COVID-19 Tools (ACT) Accelerator was launched at the World Health Assembly in May of 2020 as a commitment between world leaders to ensure collaboration for the timely and equitable access of a COVID-19 vaccine around the world.<sup>33</sup>

29 <https://www.brookings.edu/research/the-potential-and-limitations-of-impact-bonds-lessons-from-the-first-five-years-of-experience-worldwide/>

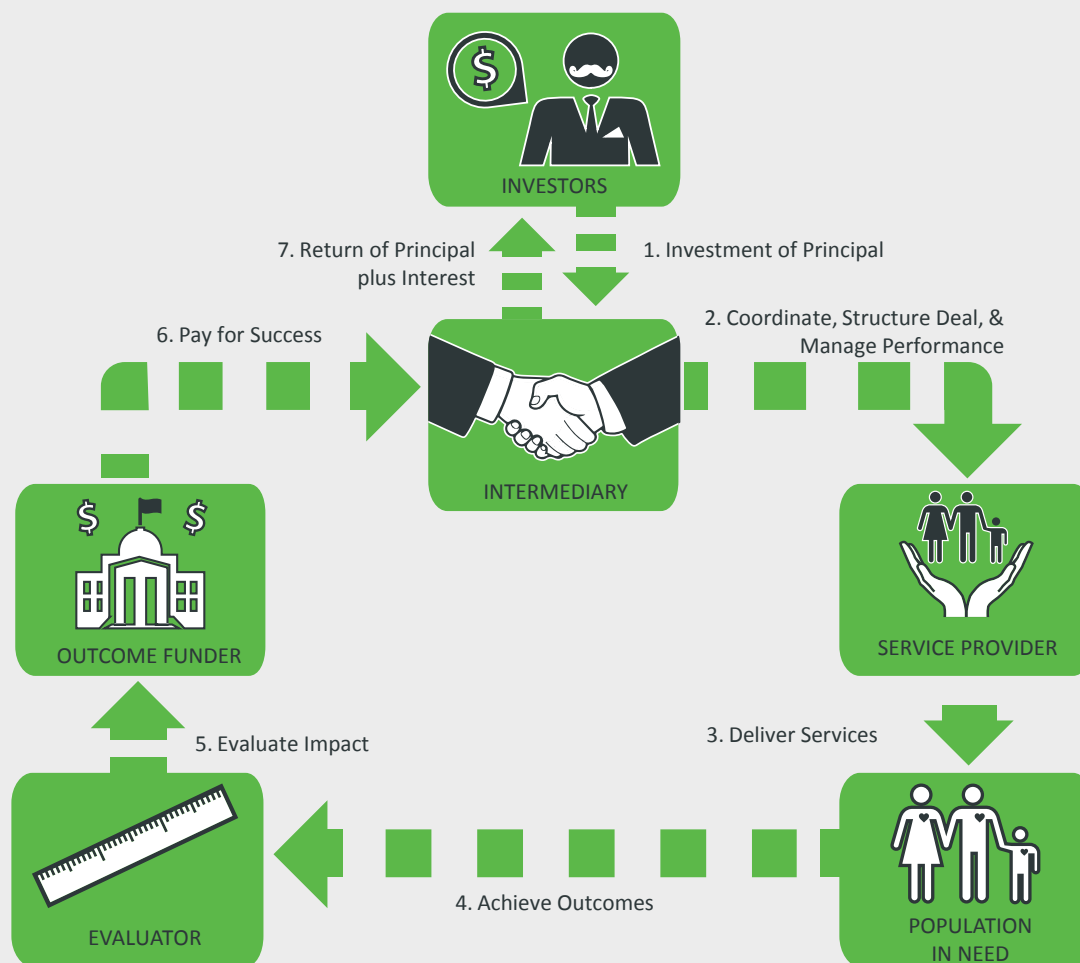
30 <https://www.cgdev.org/sites/default/files/structuring-funding-development-impact-bonds-for-health-nine-lessons.pdf>

31 <https://www.gov.za/speeches/president-ramaphosa-launches-africa-medical-supplies-platform-help-fight-covid-19>

32 <https://www.nytimes.com/2020/03/19/us/politics/coronavirus-vaccine-competition.html>

33 [https://www.who.int/docs/default-source/coronaviruse/transcripts/transcript-who-actlaunch-24apr2020.pdf?sfvrsn=45977318\\_2](https://www.who.int/docs/default-source/coronaviruse/transcripts/transcript-who-actlaunch-24apr2020.pdf?sfvrsn=45977318_2)

**Figure 3:** Basic structure of a Social Impact Bond



Source: Brookings Institute (2019). *The Potential and Limitations of Impact Bonds: Lessons from the First Five Years of Experience Worldwide*

## 5 Challenges of fiscal policies and strategic purchasing in healthcare



The challenges and opportunities in the use of both fiscal policies and strategic purchasing are discussed in greater detail in the appended case studies. Below is a summary of the key common challenges faced in the political process, design, implementation and administration of both instruments.

- **Political will.** One of the central challenges for the use of fiscal policies for health is the lack of will by policy-makers to implement taxes which may be deemed politically unpalatable, especially by governments reticent to influence markets.
- **Weak governance and institutions.** The use of fiscal policies and strategic purchasing for financing of healthcare requires strong institutions and leadership. Health taxes rely on a strong tax administration system, a solid revenue collection system with minimal leakages and the capacity to absorb the revenues earned from the taxes. Strategic purchasing requires robust yet agile procurement infrastructure with strong information systems for verification
- **Technical expertise.** Designing fiscal policies and strategic purchasing initiatives which yield the desired public health and economic benefits without undue

impact on the market is a challenge even for developed countries with advanced systems. The challenge of health taxes is to find an optimal tax rate that accrues the desired health benefits while not creating an overreliance by the government on these taxes as a source of revenue, and not creating disincentives to circumvent taxation such as smuggling. As an example of the latter, in 1995 Zimbabwe raised taxes on alcoholic beverages but repealed the increase within months when tax revenues dropped significantly.<sup>34</sup> Translating health policy into purchasing decisions is a key issue in strategic purchasing policy design. Formulating health policy is a key function of government stewardship but one that is either absent or poorly carried out in many countries. As a result, it has tended to have minimal influence over purchasing decisions.

- **Cost.** Designing, implementing and administering fiscal policies and strategic purchasing for health demands substantial transaction costs in the formulation of health policies and, particularly, in setting a regulatory framework, collecting information and monitoring processes. These costs are often a deterrent to countries with many competing priorities.



*An upcoming challenge is the competitive access to a COVID-19 vaccine when an effective formula is released into the market*



34 <https://www.ncbi.nlm.nih.gov/books/NBK11714/>

## 6 Conclusion: Building back better



Strategic purchasing and fiscal policies for health are both tools which increase the resources and efficiency of public resources for health. The current COVID-19 crisis has presented an unprecedented challenge for health systems across the globe but has also been met with swift and effective responses in many African countries, with most performing better than wealthier countries in terms of stemming the spread of the virus and, hence, mitigating its human and economic toll. However, the global economy is facing a recession fuelled by the virus and attendant lockdown, and it

is projected to have a significant impact on African economies. As such, it is important to consider rebuilding structures that are more resilient and efficient in the process of re-emerging from the pandemic. Both strategic purchasing and fiscal policies for health offer opportunities to increase resources allocated to health and to improve health outcomes, but both require strong governance institutions. In 'building back better', African countries must invest in institutions that will make possible the deployment of tools which will protect the system from future instability wherever possible.







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