

# **Towards a New Investment Concept in the Health Sector**

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## **TOWARDS A NEW INVESTMENT CONCEPT IN THE HEALTH SECTOR**

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1. The reduction in public spending on health care and, particularly, on the equipment and physical plant during the 1980's, has been widely reported both in the literature and in forums examining the social impact of the economic crisis of the previous decade (Cornia et. al. 1987, and Pinto de la Piedra 1988). The Region seemed to have neglected the importance of investing in the health sector, since the total health expenditure plunged even in the countries that did not experience a decline in their level of economic activity. In Colombia, for example, it was reported that while total spending on health accounted for 8% of GDP (Gross Domestic Product) at the beginning of the 1980's, its share had fallen to less than 6.5% in 1985 (Ferreira and Roda).
2. The effect on population's health status due to the reduction in health expenditure was difficult to assess in the short run. At the time, it was estimated that some time would have to elapse before the impact was felt in both health and education sectors. Certainly, the analysts could not have predicted the outbreak of cholera at the onset of the 1990's, for the belief was that the disease had long been eliminated in the Americas. Furthermore, cholera is viewed as a disease typical of living conditions with poor access to sanitary and health services.
3. In 1992, the magnitude of the deficit in the sanitary and health sectors in Latin America and the Caribbean was estimated as follows: 130 million people have no access to drinking water and 160 million people have no routine access to health services. It was also reported that each year diarrheal diseases other than cholera cause some 130,000 deaths in children under five (PAHO 1992).
4. The evidence and consequences of the deterioration in the Region's living conditions, coupled with the recent years' economic recovery, have made it possible to re-think the priorities of economic programs, specifically the policy of public spending. Consequently, a new credence has been given to the old notion which states that an appropriate distribution of the benefits gained through economic growth and reflected in better living conditions, is the element that differentiates a growing economy from the developing one. Accordingly, it has been proposed that higher priority be given to the spending on social sectors when economic policies are designed, especially at a time when international financing institutions have announced the availability of additional resources for these sectors (CEPAL 1990, ECLAC 1992, World Bank 1993, and IDB 1993).
5. The time has come to review the health care investment policy. Moreover, the concept of investment advocated in this document proposes that the designed health care investment policy include, in addition to physical investment, all of the other expenditure components that

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directly affect the productive capacity of either the sector as a whole, or specific health institutions. Under these circumstances, the concept of investment is one that differs from the strict definition utilized when National Accounts are computed.

6. The investment policy emerges as a critical point in the process of health sector reform that takes place in the Region. While in the short run investment in the physical infrastructure will be deemed necessary to recover some of the production capacity lost in recent years, the present time provides an appropriate opportunity to review the health system organization throughout the Region.

7. A comprehensive institutional analysis will be a key element in reviewing the health sector organization. As it is envisaged in this document, this analysis should include institutions directly engaged in producing services as well as those devoted to providing administrative support and supervision. One of the expected outcomes of undertaking an analysis of the scope proposed here, is that it will give rise to projects of a different nature and higher impact than the ones that are identified in the light of an approach that considers the organizational and institutional aspects as a given.

8. Sectoral analysis is to play a vital role not only in the health sector reform process but also in the identification and design of sound investment projects. The process of identifying and preparing projects needs to be made in the light of the information provided by studies that review the organizational and institutional aspects of sectoral performance. The project appraisal phase is an indispensable step in making documented decisions about resource allocation. However, regardless of the level of methodological complexity in the project appraisal phase, the information gained would be meaningless without a rigorous preparation phase that views the project in a larger sectoral perspective.

9. Studies carried out during the recession, indicated that one of the mechanisms of adjustment to the budget cuts in the health sector was to improve the efficiency in the process of producing and delivering health services (Musgrove 1989). This finding led to the eventual acknowledgement that greater efficiency is a significant component to be considered in the design of health care financing policies (WHO 1993, and Pinto de la Piedra 1989). Furthermore, increased efficiency should be regarded as a core element when designing investment policies and identifying specific investment projects.

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10. Improving the quality of investment is a basic requirement to ensure that additional resources have the greatest possible impact. Thus, production processes are to be reviewed in order to identify feasible areas where efficiency levels can be increased.

11. Many of the countries in the Region have an unfortunate record that shows a number of health facilities, the construction of which was funded by expensive international loans, which today are unable to provide the services they were originally built for. This reality highlights the urgent need to enhance the project formulation capacity at the country level.

12. The health sector needs to fortify its ability to make better use of the high priority that it currently enjoys, both internally and externally. Accordingly, the health sector must create--or restore where it was lost-- the capacity to formulate and evaluate projects. However, the experience in the Region indicates that training programs in this field are usually sponsored by economic institutions (i.e. Ministries of Finance) which tend to target their training at the human resources in the production sectors. Thus, it is of utmost importance that training programs give higher priority to building project formulation and evaluation capacity in the health sector.

13. The health sector's project execution capacity is an issue that invariably arises whenever the subject of resource allocation is addressed. *Ex-post* evaluations, carried out by the Inter-American Development Bank (IDB), assessing loans to the health sector in the 1970's and 1980's point to problems of execution capacity: physical goals were not met on schedule, cost over-ran, loan resources were committed on untimely basis and, projects had to be reformulated more than once. The IDB report concludes that all of these difficulties mainly affected the most primary levels of health care (IDB 1993).

14. As a way to address a clear need for a specific ability to execute projects in the sector, it is proposed here that activities to strengthen institutional capacity be identified at the project level. These activities ought to include investments in human capital (training) and equipment, as well as the reorganization of the production agents. At the project level, all of these activities are intended to increase the effectiveness of investments and ensure that projects actually generate the expected impact.

15. From the sectoral point of view, the investments are to strengthen the conditions under which health care services are produced and consumed. On the production side, investment is intended to improve effectiveness and efficiency. Towards this end, it is recommended to assess --at the country level-- the impact of services currently provided to solve specific health problems. This analysis is to be complemented with one that estimates the outcome that would

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be achieved if a different set of services were to be provided. For example, a study conducted by PAHO in a number of Central American countries analyzed three technically feasible alternatives to address and control the problem of malaria. As a result, it was found that each one of the three programs under study was preferable to the program that was being implemented. With any of the three alternative combination of services the number of averted malaria cases, increased, all at a lower cost per averted case. Thus, any of the alternatives under consideration turned out to be more cost-effective than the program in use (OPS 1991).

18. On the consumption side, investments will be aimed at ensuring a "reasonable" access to health services. According to her own policies and availability of resources, each country will have to define a set of health services to which the population will be guaranteed access. As a matter of fact, Governments that design their economic policies following an approach of "economic growth with social equity" will be in a better position to allocate public resources to fund the provision of health services that in a traditional cost/benefit analysis would have been considered "unprofitable", such as care for the elderly and the disabled. Countries that follow this economic model have shared their experience on this point in international forums (statement by Chile at the XXIV Session Period of ECLAC, 1992).

19. Summing up, the investment policy in the health sector is to be closely linked to the process of sectoral reform. Furthermore, resources allocated to fund investments in the health sector have a two-fold objective. First, they are aimed to regain the production capacity that was lost during the economic recession experienced in the 1980's, and second, they are intended to revitalize and further develop the capacity of providing health care. These goals are to be achieved through the reorganization of the production factors involved in the process.

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