



Impact of Global Economic Crisis on Health in Africa

Introduction

The current instability in the global economy has the potential to bring uncertainty and risk to all sectors in Africa. There is particular concern for the health sector. Africa is hard-pressed to show improvements in its health indicators and progress towards meeting its Millennium Development Goal (MDG) targets. The global economic downturn comes at a time when Africa's financing of health care was showing signs of improvement made possible by high economic growth averaging 5% per year over the last ten years. However, most of sub-Saharan Africa's health sectors are still heavily reliant on external funding as well as out of pocket spending by households. In 2006, the World Health Organization (WHO) reported that the private sector (including households) accounted for 54% of total health expenditures, 82% of which came from households. Governments contributing 46% made up the balance in total health expenditure. External funding accounted for 17% and this is included as part of the private and government figures reported by the WHO.¹ Sub-Saharan Africa (SSA) governments have been struggling to live up to their commitment to allocate as much as 15% of their budgets to the health sector (the "Abuja target"). Fewer than five have accomplished this.²

Health care financing in SSA has been constrained, not only in terms of the volume of funds available, but also by the fragility of the underlying governance structures that have not adequately addressed efficiency of resource allocation and use.

This paper examines the current and potential impact of the economic crisis on health sector financing and programming and outcomes in Africa. The paper also recommends actions that governments and development partners can consider to mitigate the potentially catastrophic effects of the global economic crisis on the health of Africa's people.

A survey of country Missions of the United States Agency for International Development (USAID) contacted by the USAID Bureau for Africa (Washington DC) yielded valuable insights into current impact of the crisis on health. Other information was obtained from published reports by the World Bank, African Development Bank, World Health Organization, and the International Monetary Fund, among others.

What are the major factors that impact on government health financing?

Government revenues

In order to finance social programs, including health programs, governments rely on tax revenues (including income taxes, customs and excise duties and various fees), dividends from equity investments, interest and grants. To supplement revenue, governments also go into debt or even print money that can be inflationary.

¹ Hatt, Laurel E. and Lisa K. Fleisher. January 2009. *Toward Solving Health Financing Challenges in Africa – A Way Forward*. Bethesda, MD: Health Systems 20/20, Abt Associates Inc.

² WHO Statistical Information System. Rwanda, Botswana, Malawi, Burkina Faso, Liberia. However, some of the government expenditure on health includes donor funds and overstates achievement.

The global economic crisis is affecting these sources of government revenue mostly adversely—but sometimes also favorably. The impact on each country depends on many factors, including how closely linked it is to the global financial markets, as well as whether it is primarily an exporter or importer of commodities. Most African economies have (for the time being) been spared the immediate financial impacts due to their weaker integration with global financial markets. However, the World Bank predicts that on average SSA will achieve only 2.4% growth in 2009, down from 4.8% in 2008³ while at the same time warning that the prospects for 2010 are shrouded in uncertainty. Below we look at the impact of the crisis on government revenues, with countries grouped as either largely exporters or importers of commodities since the crisis affects each group differently. This section on revenue ends with a look at earnings from tourism.

Commodity exporting countries

“Chief Shaka “Mugabe” Sandi, chairman of the Sierra Leone Indigenous Miners’ Movement, said: “We’ve laid off all of our day laborers. I used to employ 20 men. Overall employment is down by more than 80%. There are empty houses around the town now. Everyone has gone back to the villages to farm, but it’s impossible to make a living from farming. There’s no credit to enable us to grow enough to have a decent business. Mining is a tough life but at least the salary helped people here to make a living.”⁴

Earnings from the export of commodities have been key to Africa’s economic growth and building up of foreign exchange reserves. Slower growth and depletion of reserves could undermine the stability of most economies. Commodity prices have fallen due to lack of demand by the manufacturing and processing industries in Europe, USA and emerging markets such as India and China. Commodity prices of oil, copper, diamonds, other minerals; cocoa and coffee, are falling. In world markets, the price of oil has declined by 65% from US\$125.73 per barrel at the beginning of the financial crisis to US\$43.48 in January 2009⁵ due to reduced demand; this has adversely affected African oil exporters. For example the Nigerian government has warned that: “*the budget is not going to be workable or implementable and that means budget cuts across all the sectors including health*”⁶ because revenue estimates had been based on a price of \$45 a barrel but only \$40 was being realized.

Similar impact has been observed in Zambia. Due to the decline in copper prices on the world markets, the government has had to cut all budgets including to the Ministry of Health which received 12% less than in 2007.⁷ Lesotho too has seen revenue declines due to job cuts among mineworkers and lower receipts from the South African Customs Union.⁸

Sierra Leone has laid off 90% of its diamond mine workers; in Zambia some 5,000 copper miners have been laid off, with each mining job sustaining an estimated 20 jobs in the informal economy; Botswana has temporarily mothballed the diamond mines that generate 80% of its exports.⁹

³ World Bank. <http://go.worldbank.org/W8KF9G5660>. “World Bank Updates Global Economic Forecasts”. April 1, 2009.

⁴ Oxfam. Initial assessment of impact of global economic crisis in developing countries. 27 March 2009

⁵ Impact of the global financial and economic crisis on Africa. African Development Bank. February 2009

⁶ E-mail survey of African USAID Missions by AFR/SD

⁷ ibid

⁸ ibid

⁹ Oxfam, 27 March 2009

Agricultural commodities have not been spared either. In Kenya the decline in demand for its agricultural exports has depressed production. Government collections from company and employment tax revenues have continued to fall behind targets, prompting the government to direct all ministries to cut expenditures in specified line items by between 10-15% in the current (2008/09) fiscal year. In addition the government has also put a freeze on personnel recruitment.⁹ Burkina Faso's cotton export annual growth has dropped from 6.9% in 2007 to 3.5% in 2008.¹⁰

Commodity importing countries

Countries that are primarily importers of commodities, particularly oil, were hard hit by the food and oil price increases in 2007 and part of 2008. As noted above, there has been a significant decline in the prices of some commodities, notably crude oil. This is helping these countries experience significant savings now and improvement in their terms of trade.

Tourism earnings

The tourism sector provides a significant inflow of direct revenue for many African governments and is a source of employment for many people. Revenue from tourism has been badly affected with countries reporting substantial reductions, in 2008, in the volume of visitors. Egypt reported a 40% cancellation of hotel reservations; the Seychelles announced a 10% fall in tourism revenue and Kenya expected up to 40% reduction in the number of tourists.¹¹

Cost of doing business

The impact of the oil price increases of 2007 is still being experienced in countries that import oil. Although global oil prices have fallen by two-thirds, in most African oil importing countries pump prices have not fallen by the same margin (e.g. in Kenya the reduction has been about only 30%¹²) making the cost of doing business including running health facilities higher than for the preceding decade. Depreciation of local currencies against the US dollar, the Euro and other hard currencies has led to higher prices of imported products, including pharmaceuticals. This is at least a part of the reason that local gas (petrol) prices have not fallen as much at the pump as the dollar price of oil—the local currency (e.g., Kenyan shilling) has fallen against the dollar, so that the significantly lower dollar prices of oil do not translate into proportionately lower prices in the local currency. This probably also is part of the explanation for food prices remaining high despite record harvests. Increases in the cost of pharmaceuticals have already been reported in several countries including Kenya, Tanzania, Zambia, DRC, Nigeria and Namibia.¹³ This negative impact is also being experienced in cases where governments had committed (in local currency) to co-finance projects and such commitments now amount to much less than originally anticipated especially where the funds were meant to pay for imported health commodities.

⁹ ibid

¹⁰ Impact of the global financial and economic crisis on Africa. African Development Bank. February 2009

¹¹ ibid

¹² Stephen Muchiri – Health financing consultant, Kenya. Personal communication with author.

¹³ Email Survey

Resilience of Africa to withstand current economic shock

Africa is in a relatively better position now than a decade ago to deal with this economic shock. In the past decade, many African countries have strengthened their economies with improved macroeconomic policies that have led to relatively high growth rates. This has helped them to build up their foreign currency reserves and also reduce their external debt. The burden of external debt has also been lightened for some countries through various programs such as debt buy-back (e.g. Liberia recently), and the highly indebted poor country (HIPC) debt relief program for which 20¹⁴ African countries are already in post-completion¹⁵ state as of March 2009.¹⁶ These factors together with the positive impacts mentioned above (e.g. cheaper oil imports) coupled with good governance may help African countries to soften the blows of this crisis on economic growth and health financing.

How Are Household Incomes Affected?

The financial crisis is happening at a time when African households are still going through a serious food crisis due to persistent drought and higher world food prices. The combined impacts could have serious consequences on health. The job losses and reduced cross-border/overseas remittances will hurt household incomes. Many small scale, informal sector manufacturers, handicraft makers, and general retailers all face exposure as disposable incomes fall. Tourism is the primary source of income for the handicraft industry, which employs a significant number of women. Other potential effects on women's income have been noted, including women as the majority of clients of MicroFinance Institutions (MFIs) (85% of the poorest 93 million clients of in 2006). Loss of markets will affect ability to repay loans and could expose some to the risk of having to pay up on their guarantees to other members of the MFI. The loss of women's income has long-term negative implications for the welfare of poor households and future development because of their preference to invest scarce resources on child health and education.

Poverty is closely correlated with lower consumption of health services including preventive care, leading to poorer health outcomes. Previous periods of financial crisis have been shown to drive more people below the poverty line. While the available data come from non-African countries, they do give strong indications of the likely impact of the current crisis on Africa. Households already find themselves with less disposable income as a result of worker layoffs in the extractive industries and agriculture due to low demand overseas. In addition, remittances by relatives in developed countries are already declining as described below.

What is the impact on external sources of financing?

Donor funding: Africa still relies to a large extent on external funding of health care, especially in the fight against the AIDS pandemic, where in particular, overseas development assistance (ODA) is the primary source of financing. A contraction in donor-country economies may very well lead to reduced funding for health programs, especially where donor countries had pegged their ODA to a percentage of their GDP; a contraction in GDP means lower ODA.

¹⁴ Benin, Burkina, Faso Burundi, Cameroon, Ethiopia, The Gambia, Ghana, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, São Tomé & Príncipe, Senegal, Sierra Leone, Tanzania, Uganda, Zambia

¹⁵ A country has met all conditions and lenders are now expected to provide the full debt relief committed at the decision point

¹⁶ <http://www.imf.org/external/np/exr/facts/hipc.htm> IMF Fact Sheet.

The Global Fund is facing a financing gap of \$4 billion through 2010, according to the Executive Director, Michel Kazatchkine. Other donors have variously indicated that they will or may cut their Africa funding according to reports from the field.¹⁷ These are summarized below as an example: this is not an exhaustive list but only the key ones reported.

Table 1. Impact of global crisis donor funding

Country	Impact on donor support
D.R. Congo	<ul style="list-style-type: none"> • DFID is decreasing its involvement in health. • The Belgian Cooperation has decided that it is no longer necessary for it to support HIV programs since USAID, Global Fund and World Bank are working in HIV.
Lesotho	<ul style="list-style-type: none"> • Irish Aid is limiting their contribution to the DHS and is not making other commitments until things settle a little.
Liberia	<ul style="list-style-type: none"> • The drop in value of the British pound reduced the Pool Fund's (and other) DFID contributions by 25%. This has reduced the number of clinics supported by DFID, and also delayed the planned extension of the Price Waterhouse Coopers (PWC) contract to establish county financial management offices (with oversight from PWC) and it's now supposed to begin in July, if funds are available.
Benin	<ul style="list-style-type: none"> • Switzerland has indicated that it may pull back from health sector support
East, Southern Africa Region	<p>At a regional level:</p> <ul style="list-style-type: none"> • DFID has cut their regional HIV/AIDS annual budget by about 10M pounds in favor of investments into the South African bi-lateral agreement. • Irish Aid anticipates a major cut in their regional OVC budget. There have been steady declines in EU contributions to regional HIV/AIDS programs over the past year. Cuts have been somewhat mitigated by the favorable exchange rate, but that difference has now been eaten up and the cuts are starting to be felt. • Swedish SIDA is anticipating particularly heavy cuts in its foreign aid.

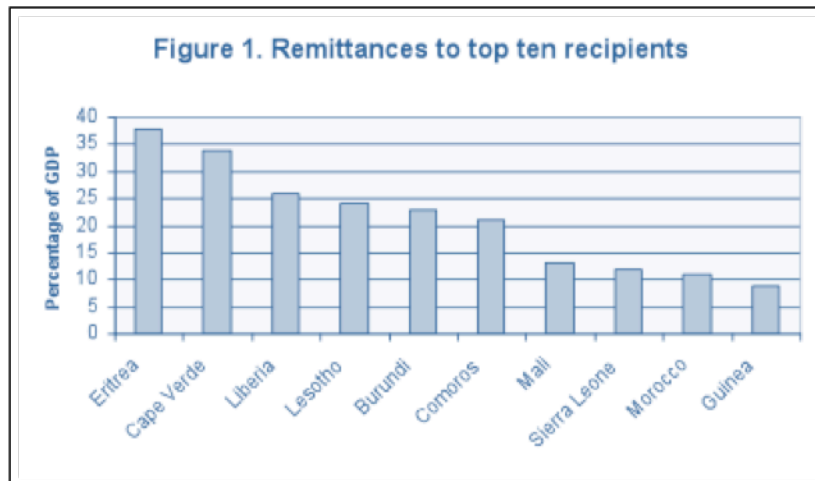
The effects of declines in external funding may be mitigated by the devaluation of local currencies where such external support is used to pay for local costs. This has already been the experience of some countries, including Zambia and Namibia. In Zambia some projects that had budgeted in US dollars now have to re-program excess Kwacha or extend the lives of projects to use up the "windfall" funding.

Remittances: Remittances have long been a major source of external financing for African countries, sometimes even exceeding official development assistance. The volume of remittances to SSA in 2007 was estimated at \$19 billion, equivalent to 2.5% of GDP, but to all of Africa the total was \$39 billion equal to 5% of GDP¹⁸. Remittances can account for significantly more when viewed on a country-by-country basis. In 2007, according to the International Food and Agricultural Fund (IFAD), remittances accounted

¹⁷ E-mail survey of African USAID Missions by AFR/SD

¹⁸ <http://www.ifad.org/events/remittances/maps/africa.htm>

for more than 35% of Eritrea's GDP and were higher than 10% of GDP for eight other African countries as shown in figure 1. Remittances are an important source of income for households and a decline can reduce ability to access health services.



What are the likely impacts on health indicators?

Health indicators in most SSA have been poor though some countries (e.g. Tanzania, Eritrea, Rwanda, Ghana, and Malawi) have reported notable improvements in some key areas such as maternal and/or child mortality in the recent past. The impact of the economic downturn on health indicators will occur through various channels including: decline in national and individual incomes; household demand and access to essential health care; supply of health services. Increased poverty (as discussed above) will result in worse nutritional status.

Infant mortality and Gross Domestic Product: The infant mortality rate (IMR) correlates closely to the level of GDP per capita over time. As economic growth and GDP per capita declines, there will be an increase in infant mortality. The World Bank estimates that a decline in GDP per capita of one or more points increases average infant mortality by 7.4 deaths per 1,000 births for girls and to 1.5 deaths for 1,000 births for boys.¹⁹ In a 2008 World Bank paper, infant deaths are correlated to the “macroeconomic conditions around birth, rather than in the early in-utero period or in the latter half of a child’s first year of life, which matter most for a child’s survival in her first year”.²⁰

Nutrition: The financial crisis is further complicated by the on-going food crisis that has already hit many countries since 2007. The price inflation of staple foods will compromise the survival of the poor especially those who are ill and/or on antiretroviral drugs (ARVs) and require nutritional support. The most vulnerable are the children and women especially pregnant women, and particularly in conflict or post-

¹⁹ World Bank. Washington DC. Press Release No: 2009/245/PREM. Women in 33 Countries Highly Vulnerable To Financial Crisis Effects.

²⁰ Sarah Baird, J. Friedman, N. Schady. Aggregate Income Shocks and Infant Mortality in the Developing World. Policy research Working Paper #4346. World Bank. 2007

conflict situations. Also, caregivers may have to travel further for income, leaving children alone for longer periods.

Access to essential health care: Access to essential health care is likely to be affected as household disposable incomes fall and households have to delay treatment as they juggle between competing basic needs, especially food. This is likely to be especially true where user fees are in existence, creating a further hurdle to access. Studies have shown that the removal of user fees leads to increased access to services, thus proving that fees do act as a barrier to access.

Supply of health services: Ministries of health will experience budget cuts and these may very well translate into a shortage of medical supplies, especially at the primary care level. In many SSA countries, staff costs consume most budgets (up to 60% in some cases) with the balance available for supplies and other operating costs.

What can be done to mitigate the impact on health?

Surveillance: The current crisis in world economies and financial markets is still evolving and many of its impacts are yet to be experienced especially at the household level. It is important therefore to maintain a constant surveillance on signs of negative impacts on health systems and on key health indicators, especially maternal, newborn and child mortality. For example, trying to monitor indicators like weight for height in children under 5 could help identify countries or regions within countries in particular distress where immediate relief assistance might be targeted. Some of these indicators can only be obtained by frequent communication with donor projects and NGOs in-country and with contacts in key ministries especially Health, Finance, Planning, Social Welfare, Women and Children.

Investing in health: Every effort should be made to sustain investments in health by African governments and their development partners. At a broader level, donor countries committed to contribute at least 0.7% of their GDP for achieving the MDGs; however, with GDPs declining, it is worth re-evaluating this target to see if it is still sufficient though most countries were not even reaching it. The World Bank has proposed a “vulnerability fund” for OECD countries to contribute into; this would be made available to developing countries as a social safety net during the current global crisis. Targeting of health investments will be important to assure selection of most effective interventions.

Efficiency improvements: Now is a good time to push for governments, as well as implementing partners, to take a fresh look at how they can improve the efficiency with which available resources are used. There are many tools that are already available for health sector assessments, planning, costing and rational use of pharmaceuticals that would make a big difference in the volume and costs of health resources used. Good governance underlies the successful implementation of these interventions and African governments must be seen to be taking concrete steps to strengthen governance.

Social protection: This crisis opens an opportunity for African governments to explore various social protection mechanisms that target resources to the most vulnerable population groups. These can include various forms of safety nets to cushion households from the double shocks of the food and financial crises. Some forms of protection that have been tried and proven quite effective include conditional cash transfers (there are many examples of pilot projects in health including: Namibia, South Africa, Malawi, Zambia and Kenya), health care subsidies (e.g. the Healthcard in Indonesia) and voucher systems

(Kenya, Tanzania). As these measures boost demand for services, it is important to maintain adequate supply of health services.

Community-based interventions: In designing and implementing health programs to mitigate the impact of the financial crisis, it will be necessary to pay attention to identifying vulnerable populations and focusing assistance to the most needy. Strengthening community-based interventions that promote prevention, ownership and sustainability will be key to long-term success.

Donor coordination in health sector: The economic crisis makes donor coordination even more urgent and valuable to prevent abrupt, unilateral reductions in support. Governments should work closely with health sector donors and Global Health Initiatives to map the existing web of assistance and look for efficiencies. There are valuable examples from Angola, Albania, Philippines, Benin, and Senegal that can guide these efforts.

Health and development: African governments need to look more seriously at the intersection between health and development so that economic interventions (e.g. initiatives to stimulate rural productivity in agriculture, light industries etc) can be packaged in a manner that recognizes the importance of health to economic growth.

An evolving crisis

In conclusion, it bears repeating that this is an evolving crisis which duration and ultimate impact on health and other sectors is hard to predict. A coordinated multi-sectoral response by governments and their development partners will help to minimize the harmful effects on Africa's health. There is no doubt that good governance is a pre-requisite for the success of a coordinated response. On a positive note, the economic crisis offers a great opportunity for African governments to actively seek ways to improve efficiency in the allocation and use of available resources.

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