



**REFORMING DEBT  
SUSTAINABILITY TO  
SUPPORT HEALTH  
FINANCING IN AFRICA**

Debt Sustainability Analysis (DSA) frameworks require reforms to become fit-for-purpose to support health investments in Africa. Debt sustainability refers to the ability of an economy to service its current debt obligations. The objective of DSA is to track the accumulation of debt stocks and the flow of debt servicing relative to future government revenues and expenditures, to establish whether future debt obligations will decline in the case of stability, or grow without bound in the case of unsustainability. Debt sustainability is tracked using an accounting identity that considers the current debt stock, interest rate and primary balance (the excess of government revenues over non-interest rate expenditure).

DSA does not explicitly account for the returns to health investment and therefore has an in-built conservative bias on borrowing limits that contributes to underinvestment in health. Although health expenditure is prevalently viewed from a cost perspective, return on investment (ROI) is increasingly used to evaluate the value for money of health programs, with studies generally finding significantly positive returns. In addition to the obvious benefits that good health affords us in terms of better quality of life and longer life expectancy, good health generates major economic returns by contributing to higher productivity. Healthier individuals are able to work both harder and longer, and are able to retire later. Healthier individuals also have better cognitive ability, and are therefore able to realize better outcomes from education, with children in particular benefiting from better maternal health care. Empirical evidence strongly supports the economic case for investment in health, showing not only better growth outcomes and therefore improved living standards, but also contributing to higher gender equity.

High ROI indicates that health investments should be self-financing, while the massive gaps in health outcomes in Africa make the urgent case to increase levels of health financing. Health indicators are lagging in many African economies relative to the rest of the world, and continue to exert large costs on households. Annual levels of per capita health expenditure in SSA are only US\$ 85, 15 times lower than the global average of US\$ 1,260 per capita, and 62 times lower than the average of US\$ 5,282 per capita in high-income countries.<sup>1</sup> Additionally, limited progress has been made towards achieving Sustainable Development Goal 3 (to ensure healthy lives and promote well-being for all at all ages) with most countries off-track to achieve this goal.

Despite high returns to health investments, the quantification of productivity gains from better health is not accounted for within DSA. Productivity gains are typically anticipated over the medium-term, given that investments in human capital may have a long gestation period, and returns are realized in practice through higher future tax revenue collections from a more productive labor force. DSA frameworks should accordingly account for these effects.

Additionally, DSA does not adequately account for information constraints in financing contracts, the absorptive capacity of governments or the ability of government to raise taxes. These have a material effect on the cost of capital, value-for-money on investment, and debt service capacity. The successful implementation of development projects is highly dependent on the implementation capacity of the government, the level of commitment (or effort) towards implementation, and the likelihood of occurrence of external factors that adversely affect implementation. Countries with transparent and results-based contracts, as well as strong institutions, are more likely to have higher implementation effort and better performance outcomes in health and other development projects, contributing to higher overall medium-term economic growth.

Key reforms are necessary to DSA, as well as to financial instruments, to support the large health financing needs of African economies. These include accounting explicitly for the growth-enhancing effects of health investments, and also accounting for risks arising from asset-liability mismatches between returns to health, which are likely realized in the medium-term, relative to the tenure of financing instruments. Therefore, supporting deeper markets for patient capital is important to support health investments. Further, information constraints are important. Thus, DSA should account for the effects of transparency and the quality of governance on growth, and reforms should emphasize the use of results-based financing to improve incentive compatibility. Additionally, increasing the use of state-dependent financing will improve the resilience of health investments to short-term liquidity shocks.

1. *World Bank, World Development Indicators Database.*

