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Global financial gap in the healthcare sector: should (soft) loans be part of the solution?

One Pager

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In the course of the coronavirus crisis, awareness of the importance of rapidly expanding and strengthening healthcare systems increased drastically. Given the enormous need for investment, the question of whether (soft) loans should be used to establish and strengthen healthcare systems and finance vaccines and vaccination campaigns has become more urgent than ever before. This is partly because of the high return for the national economy: The Economist newspaper cites the example of a return of 17,900% in four years if the entire global population were to be supplied with COVID-19 vaccines.

The pandemic thus highlights a development that was already evident in global health policy: healthcare is increasingly recognised as an essential prerequisite for social and economic development, like the achievement of the SDGs. However, the actual provision of funds for the healthcare sector still lags far behind what is needed.

The use of loans to finance the healthcare sector is passionately discussed with (macro)economic and ethical arguments. This one-pager summarises the arguments that shape the debate.

Con: healthcare is not a product that should be bought on credit

Opponents mainly highlight the following arguments:

– Healthcare is a human right. Financing it on credit is ethically unacceptable.

– Healthcare cannot be treated like an economic good that has to generate “returns” to be able to service the debt.

– Loans for building and equipping new healthcare facilities could act as incentives to create excess capacities that cannot be operated sustainably.

– It is the poorest countries in the world that also have the greatest shortcomings in the healthcare sector. If these countries are creditworthy at all, there is a high risk that servicing the debt would have to be financed at the expense of social spending or higher fees for healthcare services that are unaffordable for poor households.

Pro: loans in the healthcare sector are good investments

The proponents of loans in the healthcare sector, on the other hand, argue that the very poor suffer the most from deficient healthcare systems and that illness is one of the main causes of poverty. To end this vicious cycle, the healthcare systems therefore have to be strengthened and expanded as quickly as possible. If there are not enough grants available, (soft) loans should be considered in suitable cases.

– If healthcare investments financed by loans can help improve healthcare for the poor more quickly than would otherwise be possible, this approach would also be morally justifiable.

– Government loans for healthcare could also reduce the debt burden that poorer private households currently often have to take on to finance the costs of illness (treatment, medication, loss of earnings, etc.).

– Loans would have to be paid back and should thus also always be seen from an economic perspective: investments in the healthcare sector typically pay high returns for the national economy. Investments in vaccine programmes and family planning were even among the development policy interventions with the best cost-benefit ratio overall (see Copenhagen Consensus). The World Bank estimates that every euro spent on strengthening pandemic mitigation yields ten times the economic return, primarily in the form of “saved” consequential costs.

For national economics, investments in healthcare often pay off extremely well, although the economic benefit is felt initially by private households and companies, and (at least in the short term) rarely in the form of less strain on the national budget. Loans should therefore only be considered by countries that have sufficient debt sustainability – even in deteriorated macroeconomic conditions.

Conclusion

Due to the high economic benefit, (soft) loan financing in the healthcare sector is definitely a viable option. However, it can only also make a sustainable contribution to improving global healthcare on the condition of sufficient debt sustainability.■