

# Status of the economy and key challenges faced by the healthcare sector in Sri Lanka\*

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## Abstract

Ceylon College of Physicians (CCP) chose the theme of 'Holistic care amidst constraints' for the Annual Academic Sessions 2023. As the Chief Guest, I was invited to present an independent economist's perspective on the current status of the economy and to share some thoughts on two key challenges currently faced by the healthcare sector in Sri Lanka, namely the brain drain and the funding of healthcare.

The first part of this paper sets out the key contributory factors that caused the current economic crisis and the policy measures taken at present to reverse these to stimulate a sustainable economic recovery. The success of these reforms so far based on key economic indicators such as exchange rate, interest rates, inflation, GDP growth, foreign exchange reserves, government revenue, trade deficit, worker remittances and tourism earnings, are examined thereafter. Areas of concern which require attention to ensure sustainability of the process and to ensure that nobody is left behind, are highlighted.

Causes and remedies of brain drain are discussed, looking beyond those which look obvious but are currently unfeasible due to the state of the economy. The pace of emigration needs to be slowed while adapting to the challenges posed by this inevitable phenomenon and learning to live with it. Regarding funding of healthcare, issues faced by the current two-tiered system in Sri Lanka are examined, particularly the high level of out-of-pocket spending. Different models adopted by countries such as the

UK, Canada, France, Germany, Japan, and the USA are looked at. A model for Sri Lanka to consider adopting is proposed to help reach the goal of Universal Health Coverage and an attempt is made to chart a path to fulfil this vision.

## Introduction

I focused on 3 key segments in my speech given at the Annual Academic Sessions 2023 of the CCP.

1. Status of the economy in Sri Lanka
2. Key challenge 1: Brain Drain
3. Key challenge 2: Funding of Healthcare

## Status of the economy

Before examining the status of the economy in Sri Lanka at present, it is useful to identify the key factors that contributed to the serious economic crisis that unfolded before us in the recent past. While there could be differences of opinion on which factors contributed more, most independent observers would accept that the following factors contributed significantly to bringing about this crisis of hitherto unprecedented proportions.

- (i) *Tax cuts and changes to revenue collection methods* – Drastic reductions in tax rates introduced by the 2020 budget presented in November 2019 and scrapping of time-tested methods of revenue collection (such as PAYE and WHT) resulted in Government Revenue to GDP ratio falling to 8.3% in 2021,<sup>1</sup> which was among the lowest in the world.

\*Speech by the Chief Guest at the Inauguration of the Annual Academic Sessions of the Ceylon College of Physicians. 27<sup>th</sup> September 2023 at the Hotel Galadari, Colombo.

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- (ii) *Excessive money printing* – The widening budget deficit caused by (i) was funded largely by the Central Bank purchasing government securities, a transaction that merely increases the supply of money in the economy with no corresponding increase in the supply of goods or services. While this method of money creation has been routinely deployed by the Government of Sri Lanka over the years, it was taken to a different level in the years 2020 - 2022 fueling inflationary pressures of unprecedented proportions.
- (iii) *Holding exchange rate at unsustainable level* – While domestic inflationary pressures required the exchange rate to gradually depreciate, it was held at around LKR 200-203 to a US dollar<sup>2</sup> for a long period resulting in significant over-valuation of the Sri Lankan Rupee. This simultaneously encouraged imports while discouraging exports. Further, it dramatically slowed the inflow of remittances by migrant workers who started to look for alternative (mostly illegal) methods of remitting money due to the low conversion rate offered through official channels.
- (iv) *Holding interest rates at unsustainable level* – Maintaining interest rates down at an unrealistically low level further stimulated excessive consumption and spending beyond means (acting together with the overvalued exchange rate), leading to a high influx of imports, and further fueling inflation.
- (v) *Ban on inorganic fertilizer* – This exerted further pressure on the deteriorating trade deficit by creating a need to import rice to meet the shortfall in domestic production while negatively impacting the foreign exchange earnings generated by export crops such as tea.
- (vi) *Delay in seeking International Monetary Fund (IMF) assistance* – As the crisis began to deepen, most professional organizations including chambers of commerce and independent observers advocated the Government to seek IMF assistance to prevent the economy sliding down further and work out a proper recovery plan with their support. However, this advice was not heeded for a considerable period.
- (vii) *Delay in commencing debt restructuring* – Similarly, many advocated that the Government commence negotiations with its creditors with a view to restructuring its debt when it became evident that the Government did not have the capacity to continue servicing its debt obligations for long.

This advice too was not heeded, and the government continued to make substantial external debt payments while depleting its foreign exchange reserves to an alarming level.

- (viii) *Maintaining unsustainable pricing for utilities* – Even in the face of a mounting economic crisis of grave proportions, the Government appeared reluctant to increase heavily subsidized prices charged on key utilities such as electricity, water, and gas and retail prices of fuel. This resulted in the state-owned enterprises involved in these sectors accumulating substantial losses and rapidly increasing their debt burden, exerting pressure on state banks in the process.
- (ix) *Impact of COVID-19 and other unfavorable external conditions* – Undoubtedly, the pandemic and other external factors such as the Russia-Ukraine war adversely affected the Sri Lankan economy during this period. However, while many countries were similarly affected and suffered temporary setbacks, none were pushed into a major economic crisis because of these factors. Hence, it is reasonable to assume that the factors mentioned above made the difference between Sri Lanka and most other countries that successfully managed the negative impact caused by the external environment.

As a result of all the above factors acting together on an already fragile economy, Sri Lanka slid into a serious economic crisis pushing the country to declare bankruptcy and default on its debt obligations for the first time in history.

Let us now look at the policy measures that are being taken to stage a recovery from this debacle.

- (i) Increasing taxes and reintroducing effective revenue collection methods
- (ii) Curtailing money printing
- (iii) Liberalizing the exchange rate
- (iv) Increasing interest rates sharply and subsequently bringing them down gradually as inflation comes down
- (v) Relaxing the ban on inorganic fertilizer
- (vi) Seeking IMF assistance and entering into an Extended Fund Facility (EFF) program with the IMF
- (vii) Commencing a debt restructuring program covering both domestic and external debt
- (viii) Introducing cost reflective pricing for fuel, electricity, water, and gas

These are all policy reversals that can be mapped one to one against the factors that contributed to the crisis as described above, except for common external factors. As these measures have been in operation for some time now, let us examine how the economy has responded in terms of key macroeconomic indicators.

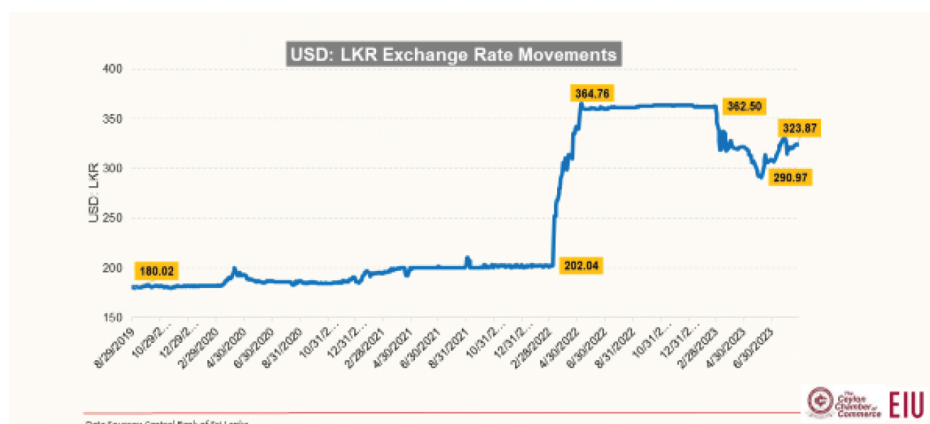


Figure 1. Exchange rate movements

The USD/LKR exchange rate has stabilized at around Rs.320 to a US Dollar, having experienced a sharp depreciation when the currency was floated in March 2022. After reaching Rs. 364.76 in May 2022, it even dipped below Rs. 300 during May-June 2023 as the currency began to strengthen once the IMF program got underway. However, with the demand for imports gradually rising again and the Central Bank starting to build up its external reserves, the exchange rate has moved up to around Rs. 320 (Figure 1).

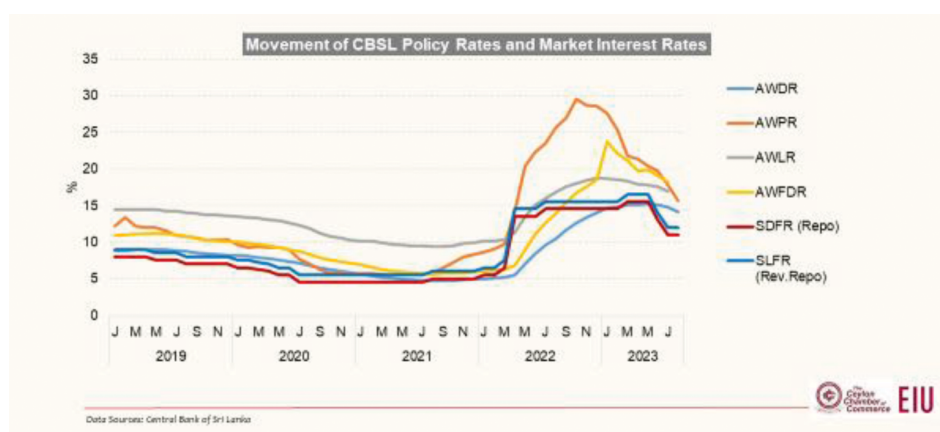


Figure 2. Interest rates.

The Central Bank increased its policy rates sharply by 7% in April 2022 resulting in all market interest rates climbing upwards. This was an essential step to control inflation which was threatening to run out of control. However, as inflation began to reduce due to the tight monetary policy being employed, the Central Bank was able to gradually reduce its policy rates inducing all other market rates also to fall to a more reasonable level.

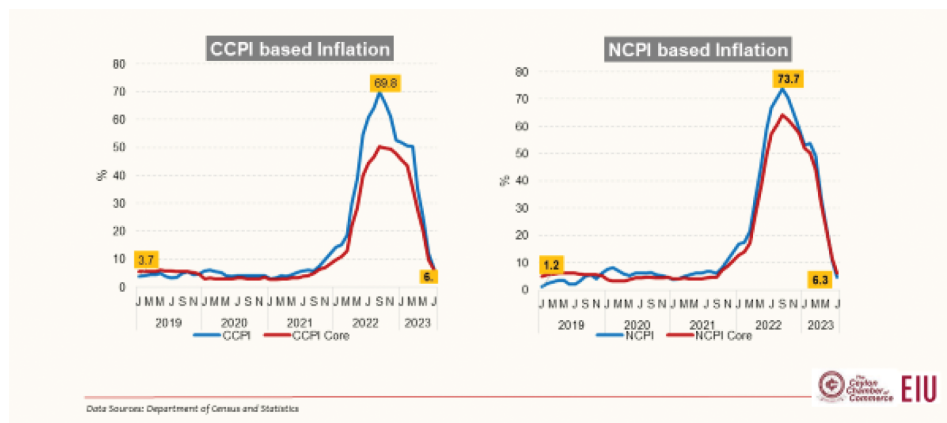


Figure 3. Inflation.

Fueled by the loose monetary policy adopted and the sharp depreciation in the exchange rate, inflation measured by both Colombo Consumers Price Index (CCPI) and the more recently introduced National Consumer Price Index (NCPI) shot up to levels hitherto unseen in Sri Lanka. However, the tight monetary policy introduced since April 2022 has succeeded in bringing it down to single digit levels by July 2023.

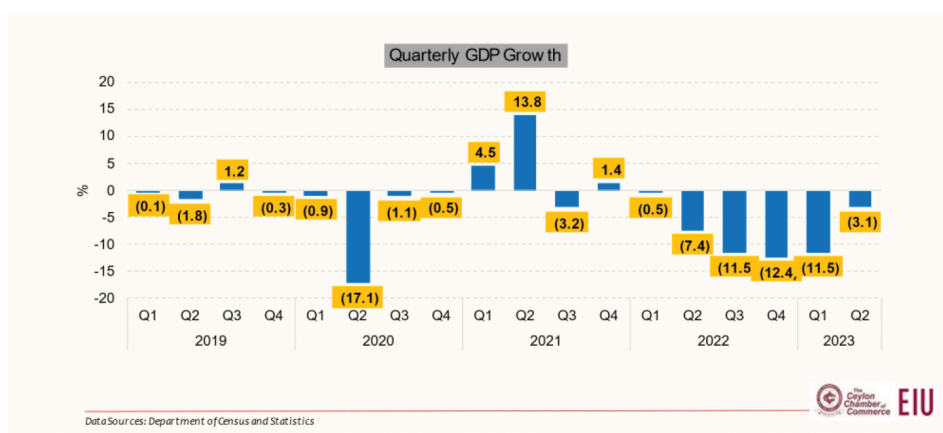
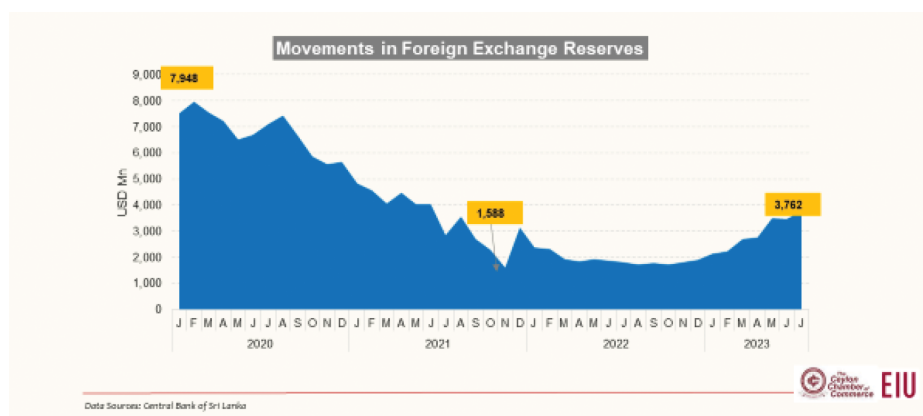


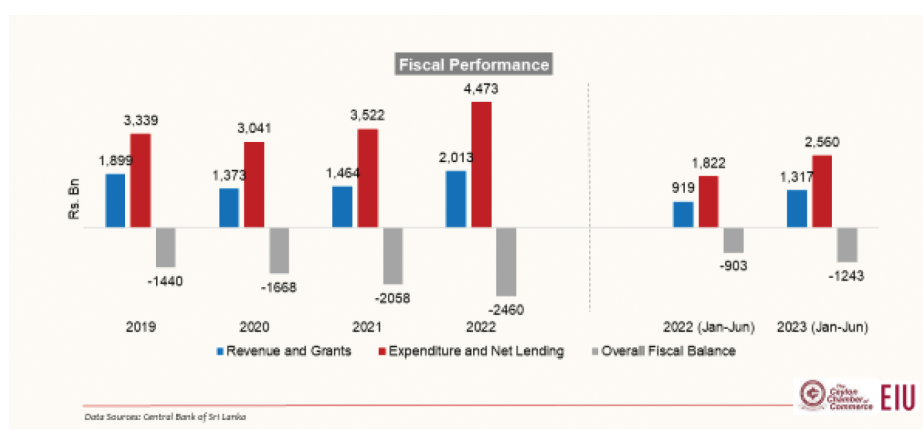
Figure 4. GDP growth.

After having experienced 3 consecutive quarters of negative double-digit rates of GDP growth indicating a deep recession, the Sri Lankan economy recorded a much lower negative growth rate of -3.1% for the second quarter of 2023 signaling an improvement. It is expected that the next quarter will record a near zero outcome with the 4<sup>th</sup> quarter likely to record a moderate growth (Figure 4).



**Figure 5. Foreign exchange reserves.**

Foreign Exchange Reserves have also shown moderate growth reaching close to USD 3.8bn by July 2023. This includes the conditional swap facility with China of USD 1.5bn without which the usable reserves amount to about USD 2.3bn. This had dipped to a precariously low level of USD 204Mn in October 2022 (Figure 5).



**Figure 6. Fiscal performance.**

The fiscal performance of the Government has also shown signs of improvement (Figure 6). The budget deficit remains high with significant increase in expenditure even in the first half of 2023, mainly due to the high interest cost, and this negates the growth in government revenue. However, the primary account which excludes interest expenses has recorded a surplus for the first half of 2023, which is a noteworthy achievement.<sup>3</sup>

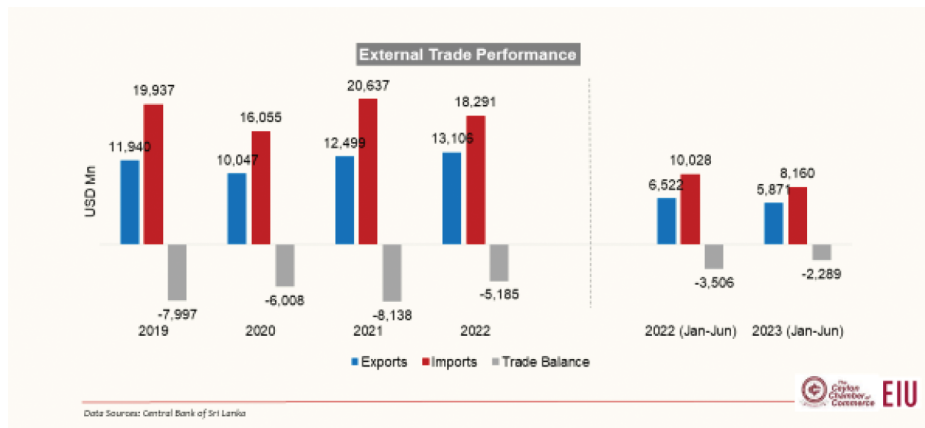


Figure 7. External trade performance.

Another area in which good progress can be seen is the external trade front where the trade deficit recorded a significant reduction in the first half of 2023 as against the first half of 2022. Considering the massive trade deficit of more than USD 8 billion experienced in 2021, it appears that the country is heading towards a more manageable deficit in the current year (Figure 7).

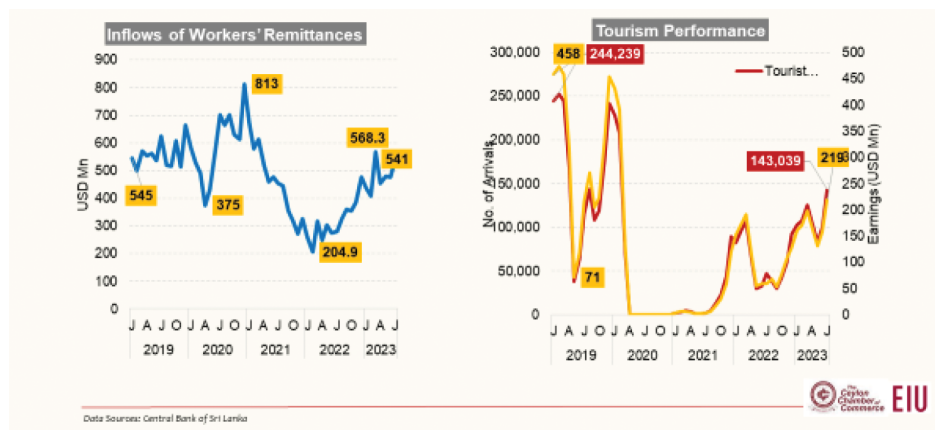


Figure 8. Workers' remittances and tourism performance.

Apart from the improving trade balance, the country has seen a significant improvement in both workers' remittances and tourism earnings since the last quarter of 2022 (Figure 8). Workers' remittances, which plummeted to USD 204.9Mn in February 2022 due to the unfavourable exchange rate, have now recovered to a healthy level of around USD 500Mn per month. Tourist arrivals went past the one million mark for the year in September with tourism earnings exceeding USD 200Mn per month since July 2023.

While progress made on these macroeconomic indicators provide clear signals that the economy is on a path to recovery, there remain a few areas of concern which need to be addressed to ensure that this journey is not derailed. These risk factors are –

- (a) Impact of import liberalisation and low interest rates
- (b) Acceptance of debt restructuring proposals by external creditors
- (c) Vulnerable sections of society still facing serious challenges of poverty, malnutrition, etc.
- (d) Brain drain
- (e) Extreme fluctuations in weather conditions
- (f) Sustainability of economic reforms post-2024 elections

- (a) Impact of import liberalization and low interest rates

Given the recent success experienced with controlling inflation and stabilizing the exchange rate, the Government together with the Central Bank has now embarked on a process of gradually removing the import restrictions imposed earlier while relaxing the tight monetary policy by bringing down interest rates. While these moves are necessary to stimulate economic growth and address issues such as the brain drain, they need to be done cautiously keeping a close watch on the rate of inflation, the exchange rate and other indicators such as the trade deficit. The sustainability of a low interest rate regime when the Government is still burdened with a massive borrowing requirement to bridge its budget deficit is another factor to bear in mind.

- (b) Acceptance of debt restructuring proposals by external creditors

While good progress has been made with domestic debt restructuring (DDR), there is still some uncertainty about the external debt restructuring process. It appears that some broad understanding has been reached with key bilateral creditors, although the details need to be finalized. A similar agreement with the holders of International Sovereign Bonds (ISBs) is yet to be reached. Hence, this remains a risk factor as the outcome of this process will determine how soon the Government will have to re-commence debt service payments to these parties and how much will have to be paid each year.

- (c) Vulnerable sections of society facing serious challenges of poverty, malnutrition, etc

While the macroeconomic indicators show a positive recovery, there are still large sections of the population facing extremely difficult economic conditions resulting from the debilitating economic crisis. Casual workers, those who have lost their livelihoods, and those on low fixed wages are experiencing a serious erosion of purchasing power due to the sharp increase in consumer prices. While inflation has reduced significantly in recent months price levels have stabilized at a much higher point while most wage earners have not seen pay increases of a similar proportion. These factors have pushed over 2.8 million people into poverty during 2020-2022,<sup>4</sup> resulting in higher levels of malnutrition and other adverse effects.

- (d) Brain drain

According to media reports over 300,000 Sri Lankans have migrated to foreign countries in pursuit of employment since 2022.<sup>5</sup> This includes over 14,000 professionals.<sup>6</sup> Since this has been identified as a key challenge facing the healthcare sector, it will be covered in greater detail later.

- (e) Extreme fluctuations in weather conditions

Sri Lanka has been experiencing extreme fluctuations in weather conditions in the recent past with prolonged periods of drought followed by periods of heavy rain causing major floods. This pattern was clear in 2023 and if it continues in 2024 as well, it could have an adverse impact on both agriculture and energy sectors which will have a significant bearing on the country's economy.

- (f) Sustainability of economic reforms post-2024 elections

From the discussion so far, it should be clear that whatever progress made on the path of economic recovery up to now is largely attributed to the economic reform measures being carried out reversing the policy mistakes made in the past. However, a worrying factor is that a presidential election is scheduled to be held in late 2024 in a political climate

where there is no consensus regarding the continuity of these reforms. One of the biggest risks faced by Sri Lanka is the possibility of a new regime abandoning these tough but essential reforms in favour of a more populist agenda which can drag the country back into a crisis. If that were to happen, that is likely to be a crisis of even larger proportions than what was experienced in the recent past!

### Key Challenge 1: Brain drain

Brain drain has emerged as a key challenge faced by the healthcare sector. It is defined as the permanent or long-term cross-border emigration of skilled professionals. Sri Lanka registered over 300,000 departures for overseas employment in 2022.<sup>7</sup>, which included a substantial number of professionals. It is estimated that nearly 1000 doctors have migrated from Sri Lanka to other countries during the past one year. This is believed to include over 200 specialist consultants.<sup>8</sup> A significant number of nurses and other healthcare workers have also joined this exodus creating great pressure on the ability of the healthcare system in Sri Lanka to maintain delivery of services as expected by the public.

The causes that contributed to this brain drain are discussed below.

#### (a) Lower salaries/ disposable income

This is typically the primary reason all over the world as human beings always act in pursuit of a higher standard of living. In addition to low absolute wages, high inflation experienced in the recent past coupled with recently introduced tax revisions have resulted in a significant erosion of purchasing power, especially among middle income earning professionals. Inability to afford what one desires to consume and the belief that one could earn adequately to fulfil such desires in another country creates a strong incentive to migrate.

#### (b) Limited opportunities

As the economy began to shrink because of the economic crisis, there was a drastic drop in opportunities for career progression, both real and perceived. The negative outlook created compelled many to seek better opportunities elsewhere.

#### (c) Political and economic instability and lack of faith in political leadership

The political and economic instability in the

aftermath of the economic crisis and an overall lack of faith in the entire spectrum of political leadership created doubts in many regarding the prospects of a strong recovery. Although macroeconomic indicators point towards a recovery, such a positive and optimistic message has not reached most sections of the public, who are inundated with negative communications flooding social media.

#### (d) Poor living standards due to fuel quotas, import bans, etc.

The Government was compelled to introduce some restrictions on excessive consumption during the height of the economic crisis and this undoubtedly had a negative impact on living standards of people, particularly of young professionals. Their need for frequent travel and consumption of so-called luxury items (which are often considered essentials in more advanced economies) had to be curtailed resulting in frustration and pursuit of happiness through migration to greener pastures.

#### (e) Anxiety about children's education with the general education system being crippled by the twin effects of COVID-19 and the economic crisis.

Apart from factors described above, a key driver influencing the migration decision of many young parents has been the disruption of school education, initially due to COVID-19 related lockdowns and thereafter by the economic crisis. This has led to concerns about the time taken to complete mandatory schooling. Similar concerns have been raised about the time taken to complete a degree at a local university with periodic strikes by students, faculty and non-academic staff further contributing to delays.

#### (f) Student migration

As a result of the concerns most professionals entertain about the local education system, there is a tendency now to prepare students from an early age to take up foreign examinations such as the London Advanced Level and to encourage students to seek entry to overseas universities and other institutions of higher education. When students travel abroad for studies, it becomes a steppingstone for them to stay back and seek employment, adding to the brain drain.

While these factors have contributed significantly to escalating brain drain in recent years, one needs to look beyond what may seem like obvious remedies which are nevertheless unrealistic and unfeasible. On one hand, some are clamoring for salaries to be increased and taxes to be reduced, which are clearly not feasible when the Government is trying hard to reduce its expenditure and increase its revenue to create a better fiscal balance. On the other hand, some are advocating for more stringent controls to be imposed on the emigration of professionals which, unfortunately, will not be effective and will only make them even more determined to leave!

Hence, let us discuss some remedies which may help to manage the issue better, both by slowing down the pace of emigration as well as by finding ways to adapt to the challenges posed by this inevitable phenomenon and learning to live with it.

- (a) Expediting economic reform process to create more stability

The primary method of curbing political and economic instability is to expedite the reform process that is currently in progress and to restore stability as soon as possible. In addition to economic reforms, some aspects of governance will also need to improve to inspire confidence in the country's prospects among those who may be contemplating a cross-border move, to retain them within our shores.

- (b) Communicating better on the progress being made towards a sustainable economic recovery.

While we are not completely out of the woods, Sri Lanka has made significant progress in terms of most key macroeconomic indicators, as explained previously. However, this message has not been clearly communicated to the public in a manner that instills confidence that we are on a recovery path. Hence, periodic communications by credible persons, supported by facts and figures, is a must to overcome the noise created by the continuous churning out of negative news by those with vested interests, particularly through social media.

- (c) Gradual liberalization of import bans and other restrictions

As stated earlier, import bans, fuel restrictions and other limitations imposed during the economic crisis have seriously affected the

living standards of young professionals, who seek certain high-end products and services as their income grows with career progression. The absence of such so-called luxuries can act as a serious disincentive to consider developing their careers within Sri Lanka, compelling them to look outwards. Hence, a gradual liberalization of these controls is required while balancing it with the need to protect the gains made by employing such tough measures.

- (d) Investing more on education and skills development

To restore faith in the local education system among young parents, there should be more investment directed towards qualitative development of general education as well as expansion of alternate streams of education through the development of the Technical and Vocational Education and Training (TVET) sector. The need for a holistic national education policy identifying key priorities for investment cannot be emphasized more.

- (e) Liberalizing higher education to encourage more private investment

Many parents are increasingly preparing their children from an early age to pursue higher education overseas. Reasons for this trend are the limited intakes of Medical and Engineering faculties of state universities and the lack of equivalent non-state-owned institutions within the country. Therefore, the country needs to look beyond narrow interests and explore ways of inviting reputed non-state players to enter the higher education sector including medical education, while upholding standards by introducing a uniform regulatory framework for all institutions of higher learning regardless of ownership.

- (f) Promoting return migration

This means encouraging those who have already migrated to return to the country and resume their professional careers. To ensure a sustainable return, the period of work abroad should be long enough to acquire skills and capital, and the return should occur well before the end of their productive life.<sup>9</sup> It requires a proper understanding of their needs and addressing them to make this transition as smooth as possible. Flexibility regarding the

acceptance of spouses and children who may be foreign citizens is a key area of concern. Since these are families with close ties to Sri Lanka, making exceptions to facilitate the return of a valuable professional back to his or her home country should not be seen as a loss. Once a clear policy is formulated, it needs to be actively communicated among target communities to encourage their return.

(g) Promoting inward migration

Inward migration refers to migration of foreign nationals to work in Sri Lanka. To balance the outward migration of local professionals, most countries permit inward migration by foreign professionals, subject to limits employed where required. It follows from the acceptance that professional mobility is a part of life that cannot be and should not be restrained by creating artificial barriers. In this context, Sri Lanka has a very high negative net migration rate indicating how closed we are towards inward migration. The total number of inward labour migrants to Sri Lanka stood at only 57,439 in 2021,<sup>10</sup> which is significantly less than the number of outward labour migrants.

Some countries such as Singapore and Malaysia record positive net migration rates indicating that inward migration is exceeding outward migration. Others like India, Bangladesh and Vietnam have negative net migration rates but much lower than Sri Lanka indicating a greater degree of openness.<sup>11</sup> At present, the National Labour Migration Policy adopted in 2018 does not even cover inward migrant workers, leaving Sri Lanka without a regulatory framework to govern the immigration of workers.<sup>12</sup> This is an area in which the Government must engage with relevant stakeholders and formulate policies to promote inward migration in selected fields where there is clearly a skill gap at present. Thereafter, the Government should make it easier for foreign professionals in these respective fields to work in Sri Lanka without much hindrance while protecting local workers where required and ensuring that foreign workers are qualified and skilled.

(h) Brain circulation

This is a relatively new concept which refers to the movement of skilled persons back and forth between sending and receiving countries.<sup>13</sup> In

today's highly networked global environment, this has become easier to accomplish even without moving oneself physically. It accepts brain drain as inevitable and attempts to draw the skills, know-how and experience gained by migrants regardless of whether they have returned to the country or not. The objective is to 'tap the brains' wherever the brains reside for the benefit of their country of origin. Transnational entrepreneurs who invest in their countries of origin while residing elsewhere, networks of scientists, academics, etc. who connect with each other virtually to share knowledge and skills and remote workers who continue to work or provide services in their countries of origin while based in another location are examples of this trend. Here too, the Government, in collaboration with other stakeholders, needs to proactively encourage brain circulation by removing unnecessary obstacles. In the healthcare sector, medical specialists who live abroad can make themselves available for consultation online by patients as well as junior doctors. Their services can be tapped for teaching of medical professionals too, using online tools.

### Key Challenge 2: Funding of healthcare

Funding of healthcare has emerged as a key challenge in Sri Lanka as the country's healthcare delivery system is grappling with drug shortages, poor infrastructure and maintenance, low salaries leading to brain drain and consequently, understaffing in many important areas. Healthcare in Sri Lanka operates as a two-tiered system where public sector free healthcare provision through a network of government hospitals and other facilities coexists with similar services offered by private sector providers, who are only partly funded by health insurance. It has been estimated that the Government's share of health expenditure is 56% with the private sector accounting for the balance 44%.<sup>14</sup> Out of pocket expenditure by patients has been estimated as 46.5% of total current health expenditure, which is well over the global average of 29%.<sup>15</sup> That includes the expenses incurred on diagnostics and drugs by public health patients as well as spending at private sector hospitals and other facilities by patients patronizing them. This two-tier system creates an inequitable outcome which enables one segment of the population to access better quality healthcare facilities, in terms of overall experience. High levels of out-of-pocket spending even by patients served by public sector hospitals run counter to the objective of achieving universal healthcare at an affordable cost. Other important developments that are critical for the

smooth and effective functioning of a patient-centric healthcare system such as the implementation of a comprehensive patient management system are also held up due to the fragmented nature of the healthcare system in Sri Lanka. In 2021, Sri Lanka was ranked around the 100<sup>th</sup> place with a UHC Service Coverage Index of 67<sup>16</sup> indicating that we have a long way to go in delivering a high level of healthcare which is affordable and accessible to all citizens.

While increasing Government's spending on health may appear as an obvious remedy, its feasibility needs to be examined in the context of a financially bankrupt state striving to contain its budget deficit to settle its debt obligations even after a restructuring of debt. Therefore, it is paramount that we reduce the burden on the state while mobilizing more resources from other stakeholders towards funding healthcare. To achieve this, alternate healthcare funding models adopted by different countries should be studied first.

There are 4 types of healthcare funding models adopted by different countries.

1. Total free healthcare provision by public sector (Beveridge Model)

This is the provision of healthcare facilities entirely free to the public through a network of state-owned hospitals and other facilities which are funded by tax revenue. Independent general practitioners operating under this system are also paid by the state. The United Kingdom and Spain are examples of countries following this model. While undoubtedly this model has helped these countries to achieve a high level of UHC service coverage (UK has a score of 88 while Spain is at 85)<sup>17</sup> its sustainability has come under question in recent times due to limited capacity of the Government to increase allocation of funds, resulting in long waiting lists and limited choice available to patients.

2. Healthcare provision by private and public sectors with Universal Health Insurance funded by the state/public (National Health Insurance Model)

In this model, healthcare facilities offered to patients by both public and private sector facilities are funded by a Universal Health Insurance system covering all citizens. The premium to cover each citizen is borne by the state. Canada and Taiwan are examples of countries following this model. Here, too, the

Government indirectly bears the entire cost of funding the healthcare delivery system. This model has produced excellent results in terms of achieving universal healthcare with Canada recording a UHC Service Coverage Index of 91 by 2021.<sup>18</sup> Like the Beveridge Model, countries following this model have also run into budgetary constraints leading to long waiting lists and lack of choice.

3. Healthcare provision by public and private sectors with Universal Health Insurance funded by private and public sectors (Bismarck Model)

This is somewhat like the National Health Insurance Model except that the insurance premium wherever possible is collected from the private sector. For instance, in the case of all employed persons, insurance premiums are collected from the payroll through contributions made by both employers and employees. Self-employed and others who can afford to pay are also encouraged through various means to pay and obtain insurance coverage. The Government funds the premium in respect of unemployed and other vulnerable low-income groups as a part of social security benefits. Other key features of this model are an agreed schedule of fees negotiated between relevant stakeholders and maintenance of digital records of patient information in one single system covering all providers. Germany, France, Japan, and Switzerland are countries following this model, although significant variations exist among them. These countries too have achieved high levels of UHC effective coverage by 2021 with Germany at 88, France at 85, Japan at 83 and Switzerland at 86.<sup>19</sup>

4. Healthcare provision by private sector with non-universal Health Insurance funded by public and private sectors

In this model, the private sector is the primary provider of healthcare facilities. While several health insurance schemes exist, they only cater to specific groups. For instance, employed persons will be covered by corporate health insurance policies while they are in employment. Government too runs specific schemes targeting vulnerable groups. The United States, the best-known example of this model, has a Medicare Scheme to cover all citizens above 65 years and a Medicaid Scheme to cover those with an income below a specific threshold. The problem with a non-universal approach to insurance is that there are significant groups of people who do not fall

into any of these categories and therefore, do not have any health insurance benefits.<sup>20</sup> Such gaps in coverage along with complex, non-standardized insurance policies inevitably result in high levels of out-of-pocket spending which explains the US being ranked below countries like Canada and the UK with a score of 86 in terms of UHC Service Coverage Index by 2021<sup>21</sup> despite being one of the richest economies in the world spending a very high proportion of GDP (nearly 19% in 2020) on health expenditure.<sup>22</sup>

It should be clear from this analysis that Sri Lanka does not have the fiscal space to embark on a state funded model such as the Beveridge Model or the National Health Insurance Model. If more economically advanced nations such as the United Kingdom and Canada are facing significant challenges to maintain budgetary funding of healthcare at optimum levels, Sri Lanka in the aftermath of a massive economic crisis will face enormous challenges if we choose to go down either of those paths. At the same time, it is equally evident that the 'free market' type non-universal health insurance model adopted by the United States will not suit Sri Lanka since it will further exacerbate the inequitable two-tier system existing in the country, leaving large groups of people without access to healthcare at an affordable cost.

Therefore, any healthcare funding reform should focus on the Bismarck Model, which delivers high levels of universal healthcare without depending entirely on the state, adapted as needed to suit Sri Lanka. We already have some of the building blocks required to chart a carefully designed path to transition towards such a model. To do that, let us clearly identify where we are and where we want to go.

### Where we are

The current healthcare funding system in Sri Lanka has the following components.

- Network of Government hospitals and other facilities administering free healthcare services (except for a few entities levying nominal charges).
- Network of private hospitals, other facilities and General Practitioners who charge for their services.
- Medical Specialists who serve in both types of institutions mentioned above.
- State managed Aghara Insurance Scheme

providing health insurance cover to about one million government servants and their families (coverage of 3-4 million persons).

- Other commercial insurers (both public and private sector), providing health insurance cover to employees of corporate entities and a smaller number of high-net-worth individual customers.

### Where we want to go

In my opinion, we should move towards a system largely based on the Bismarck Model with the following features.

- Universal Health Insurance Coverage where everyone is covered by Health Insurance (it can be schemes offered by many public or private sector entities subject to minimum coverage levels stipulated by the regulator).
- Public and Private sector hospitals, other facilities, and General Practitioners to co-exist and be paid through the insurance coverage enjoyed by all citizens.
- All service providers (including government-owned facilities) should charge fees. However, patients will not have to bear such costs since they will be covered by insurance.
- Patients will not need to incur out-of-pocket spending since everything (including medicine and diagnostics) will be covered by insurance.
- Since state-owned hospitals and other facilities will generate a fee income from insured patients, the Government need not allocate funds to meet their revenue expenses. However, some budgetary allocation should be maintained for capital expenditure to ensure their service delivery standards are constantly upgraded.
- A comprehensive schedule of fees for medical services, procedures, tests, etc. should be negotiated and agreed between relevant stakeholders and published.
- Digital records of all patient information (both medical histories and payment records) should be maintained on a single system linking all providers and insurers.

Once we are clear about our vision, it is not difficult to chart a path from where we are. Let us lay this down step by step.

1. Extend the Aghara insurance scheme to all state-owned institutions (beyond the ministries, departments and provincial councils that are

already covered). However, each institution can be given the option of joining any other Health Insurance Plan with similar benefits offered by any other licensed insurance company if they do not wish to join the Agrahara scheme. Joining a health insurance scheme covering all employees with a provider of their choice will be made compulsory before a stipulated date.

2. Similarly, joining a health insurance scheme and obtaining coverage for all their employees should become mandatory by the stipulated date for all business establishments that are registered with the Employees Provident Fund (EPF).
3. All other individuals who are self-employed, including members of professional bodies who are not employed by any organization, should be required to obtain coverage from a health insurance provider of their choice. Mechanisms to make this compulsory should be explored based on the experience of other countries.
4. Government should cover all unemployed and retired persons, and other vulnerable low-income earners and their families by paying the relevant health insurance premium under the Agrahara Scheme. Since the Government's funding requirement in respect of state-owned hospitals and other facilities will decline as they start charging fees, it should be able to comfortably meet the cost of these insurance payments.
5. However, until every citizen is covered by insurance, state-owned hospitals and other facilities should offer free services to those not covered by insurance. During the transition period these institutions should gradually introduce fee-based services to those with insurance cover.

*"We cannot protect a man from all sickness and misfortune. But it is our obligation, as a society, to provide assistance when he encounters these difficulties."*<sup>23</sup> – Otto Von Bismarck

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