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**Research Report**

## Post COVID EU recovery: Is there room to invest in healthcare?

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## Post COVID EU Recovery: Is there room to Invest in Healthcare?

## Executive Summary

- EU recovery plan abandoned the EU4Health proposal by the Commission in favour of funds to mitigate socio-economic damages
- The instrument of the ESM still remains in place
- Funds from the European Stability Mechanism should be used by countries which have been demonstrated to lag behind others in terms of medical equipment
- According to a 2019 report by an Italian think tank, the cuts in the Italian health system amounted to €37 billion in the next 10 years. ESM funds will at least reach that amount
- Investing also means awarding public procurement contracts; general supervision, and procurement policies are supposed to make for an efficient use of funds

*“The COVID-19 crisis presents Europe with a challenge of historic proportions. The EU and its Member States have had to adopt emergency measures to preserve the health of the citizens and prevent a collapse of the economy. We are slowly exiting the acute health crisis. While utmost vigilance is still required on the sanitary situation, the emphasis is now shifting to mitigating the socio-economic damage.”* From the conclusions of the EU Council on the 21<sup>st</sup> July 2020, it has been clear that the EU4Health plan announced by the European Commission at the end of May was significantly reduced as part of this current plan. On the other hand, Member States could still improve their national health systems by using funds from the European Stability Mechanisms, which are immediately available.

According to a recent report by an Italian think tank, the spending cuts undertaken by Italy in the health sector from 2010 and 2019 amounted to €37 billion. This sum is roughly equal to the amount of ESM funds that Italy could use (2% of GDP). A crucial aspect in using these funds is to avoid wastefulness. Healthcare public procurement has already shown signs of weakness in this regard during the emergency phase in Italy, according to a recent inquiry by the Italian anti-corruption authority.

## 1. Introduction

Economic forecasts from the IMF<sup>1</sup>, OECD<sup>2</sup>, European Commission<sup>3</sup> and others have predicted a more than 8% contraction of the European economy in 2020 following the COVID-19 pandemic. This implies that the EU is facing an historically unprecedented economic and public health crisis caused by the COVID-19 outbreak. And while other EU nations are hurting terribly due to pandemic, countries such as Italy, Spain, and France have suffered disastrously.

The demand for EU-level financial measures started to build since the early phase of the pandemic. In March 2020, ECB announced the pandemic emergency purchase programme (PEPP), which comprises asset purchases totalling €1,350 billion<sup>4</sup>. The European Union also reacted with several other steps. By early April, it announced more flexible use of the EU budget and relaxed the utilization of EU's structural funds, allowing the transfer of reserves between policies and regions to contain specific needs related to the pandemic<sup>5</sup>. In May 2020, two more temporary measures were announced. The SURE (support to mitigate unemployment risk) program can finance up to €100 billion in loans with favourable conditions<sup>6</sup>, while other €240 billion packages will come from the European Stability Mechanism over the next two and a half years. The European Investment Bank also announced a €25 billion guarantee fund with the potential to mobilize up to €200 billion, though it mostly targets small and medium-sized European firms. The goal of all these plans is to create enough liquidity by increasing members' borrowing capacity for a pandemic recovery.

According to the original proposal from the EU Commission, two main instruments were supposed to directly address healthcare expenditure: EU4Health, and the European Stability Mechanism (ESM). In this brief, I will explain how the funds from ESM seem to be the only ones immediately available to Member States. I use Italy as a case study to examine a) some indicators of the health system where Italy is lagging behind other countries in Europe and b) the importance of Italy making efficient use of the funds, since already during the pandemic, public procurement has not performed well and has instead contributed to public expenditure wastefulness.

## 2. Plans for the recovery: Is there room for healthcare expenses?

### 2.1 EU4Health and the EU Recovery Plan

In late May 2020, the European Commission proposed a novel recovery plan called Next Generation EU. Part of it (€9.4 billion) was specifically addressed to the EU4Health program. After a 5-day long discussion in July, member countries agreed on the final €750 billion recovery package. This package is historically unprecedented given that, for the first time, the EU will be allowed to borrow money from capital markets. It expands the budgetary horizon of the EU to finance its expenditure with its own new resources. This recovery package will be linked with the long-term (2021-2027) multiannual financial framework of the EU, setting a budget of €1.074 trillion<sup>7</sup>.

The NGEU then becomes a temporary but an exceptional response to complement national efforts by member nations in recovering from the pandemic. The package is heavily focused on public investment for a resilient and sustainable recovery from immediate damages caused by COVID-19. The plan will allow the EU to raise their own resource ceiling to

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<sup>1</sup> IMF (2020). <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

<sup>2</sup> OECD (2020). <http://www.oecd.org/economic-outlook/june-2020/>

<sup>3</sup> EU Commission (2020). [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_1269](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1269)

<sup>4</sup> Source: <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>

<sup>5</sup> Bandrés et al.(2020).

<sup>6</sup> One of the three safety nets, worth of 540 billion euro. <https://www.consilium.europa.eu/en/press/press-releases/2020/05/19/covid-19-council-reaches-political-agreement-on-temporary-support-to-mitigate-unemployment-risks-in-an-emergency-sure/>

<sup>7</sup> Bandrés et al.(2020).

2% of EU Gross National Income. Out of a total borrowed amount of €750 billion, €360 billion will be used as a loan, and €390 billion as grants. This spending will have three major pillars across which borrowing will be invested. These pillars are:

- Supporting Member States to recover—Recovery and Resilience Facility (RRF), REACT-EU, Rural Development
- Kick-starting the EU economy by incentivizing private investment—InvestEU
- Addressing lessons learned from the crisis—Horizon Europe (for research in health), rescEU (governmental aid in disasters), Just Transition Fund (climate)

	Grants	Loans
<b>Recovery and Resilience Facility</b>	312.5	360
<b>REACT-EU</b>	47.5	
<b>Rural Development</b>	7.5	
<b>InvestEU</b>	5.6	
<b>rescEU</b>	1.9	
<b>Horizon Europe</b>	5.0	
<b>Just Transition Fund</b>	10.0	
<b>Total</b>	390	360

Although the objective is to allocate the vast majority of funds by the end of 2024, the package plan concentrates on spending 90% in the next two years. Member States have to prepare national recovery and resilience plans by 2022 in order to get funds by 2023.

The spirit of this plan has been underlined in the conclusion of the European Council on the 21<sup>st</sup> July: *“The COVID-19 crisis presents Europe with a challenge of historic proportions. The EU and its Member States have had to adopt emergency measures to preserve the health of their citizens and prevent a collapse of the economy. We are slowly exiting the acute health crisis. While utmost vigilance is still required regarding sanitation, the emphasis is now shifting to mitigating socio-economic damage.”*

As you can observe from the Table, it is not surprising that funds available in Next Generation EU for healthcare are related to research (Horizon EU) or can be used only in disaster situations (rescEU), while the initial proposed plan of 9.4 billion for EU4Health remained basically out of the question. If a Member State wants to use EU funds for healthcare expenditures and improve its own health system, it should then be referred to the ESM mechanism.

## 2.2 European Stability Mechanism

Member nations can access ESM support (up to 2% of GDP, 2019) directly for healthcare services and prevention costs caused by the pandemic. The intriguing aspect is the unconditionality of the aid and the possibility of having less strict supervision on the expenses, as long as these expenses cover direct and indirect healthcare needs. The attractiveness of it also relies on the low funding costs and the immediate availability of these funds. These are the reasons why this plan could be attractive to those countries a) which were particularly hit by the pandemic, and b) which have high levels of public debt and difficulties to finance themselves on the financial markets. This credit supply has been available since 15<sup>th</sup> of May and will be available until the end of 2022 (it could also be extended with the evolution of virus). Italy and other countries (not only those with high debt over GDP ratios) can use this credit line to directly fund healthcare utilities and invest in healthcare personnel.

### 3. Healthcare at a glance: Italy

Italy was the first country that experienced the wrath of COVID-19 and was also the epicentre of the wider European crisis. The healthcare system was evidently unprepared to absorb a shock like this; the virus was a devastating blow to public health. The coronavirus exposed weaknesses of national healthcare in Italy. Apart from a lack of beds, critical care, testing facilities and doctors, overall defencelessness was dreadfully noticeable. Before the pandemic, the country had the capacity to provide healthcare to everyone. But the system was not at all prepared to handle the influx of a large number of patients all at once.

Healthcare expenditure across the EU was 10% of GDP<sup>8</sup> in 2017, which varies across member countries extensively. According to Eurostat data, Italy spent 8.8% of its GDP, which is lower than Germany and France, which spend almost 11.3% of GDP each. Italy's total spending per capita on health care was around \$3,650, while France and Germany spent a considerably higher amount in 2019 (\$5,376 and \$6,646), according to OECD statistics. But Italy also spent more in 2019 on pharmaceuticals than France and Germany, which covers expenditure on prescription medicine and self-medicines. However, the number of nurses per 1,000 inhabitant in Italy was almost half the number in Germany (6.7 and 13.2, respectively). Besides, the number of young nursing graduates in a given year in Italy is far less than France and Germany (19, 40, and 53 per 100,000 inhabitants, respectively). Regarding healthcare facilities, the number of beds in Germany has also been considerably higher than in Italy. In 2012, in fact, there were 12.5 beds in intensive care out of 100,000 inhabitants, compared to 29.2 in Germany in the same period (Rhodes et al., 2012). According to the Italian Ministry of Health, the number of beds in intensive care units went down to 8.23 in 2016 (Boldrini et al., 2019), four beds less than the level registered in 2012. On the other hand, Italy has more specialized healthcare devices such as X-ray, CT scan, and Radiotherapy equipment than France and Germany<sup>9</sup>. These indicators demonstrate that Italy spends more than other European countries on high-tech medical devices, yet less on beds, standardized devices, and physicians and nurses.

COVID-19 has put the health system under immense stress via two channels. First, the system was not capable of handling a large influx of patients, lacking beds, ventilators, and personal protective equipment. Second, to focus on coronavirus emergency, the health system had to sacrifice provisions of other healthcare units. To tackle difficulties on both channels, the healthcare system had to shore up its capacity entirely. An overview of Italian healthcare in comparison with France and Germany shows two important factors:

- Overall healthcare expenditure is lower than other major EU economies
- Healthcare utilities are not very balanced and generally enough to fight a pandemic

Italy and other countries can use the ESM credit line to directly fund healthcare utilities such as buying more medical devices and amenities. Given that the demand for ventilators, personal protective equipment, and intensive care beds are at a peak in international markets, Italy can directly invest in these devices. Such an investment will greatly increase hospital capacities. The rise of intensive care unit beds should then be accompanied by complementary investments such as hiring more nurses.

As we have shown from some statistics of the Italian health system, the investments in this sector went down in the last ten years. According to a recent inquiry released in September 2019 by an independent think tank (Cartabellotta et al., 2019), the spending cuts amounted to €37 billion. This amount is roughly equal to the amount that Italy could obtain in ESM funds. It is thus clear that Italy has an opportunity to come back to the levels of spending in healthcare that have been seen as recently as ten years ago.

<sup>8</sup> Eurostat (2020). <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200331-1>

<sup>9</sup> OECD (2020). <https://data.oecd.org/healthqt/radiotherapy-equipment.htm#indicator-chart>

#### 4. Healthcare Public Procurement

The availability of EU funds is not sufficient in itself. The Member State making use of the funds should also supervise whether expenditures are made in an efficient way in order to improve quality of spending. More investments imply, for example, awarding public procurement contracts. Supervising the procurement process is therefore a must, since in emergency situations regarding immediate needs for the health system, collusive and corruptive phenomena can arise. The Italian anti-corruption authority has already underlined that, during the first wave of the Corona pandemic, masks, ventilators, and gloves were acquired at much higher prices. In particular, masks were purchased with huge variabilities (from the cheapest ones bought at €1.33, to the most expensive ones bought at a price of €20.33). In the Lombardia region (the region most affected in terms of COVID-19 cases in Italy), one health unit in the province of Lodi was able to negotiate relatively lower prices by using centralized procurement. In order to award a public contract, this health unit used the procurement agency of the Lombardia region (typically having a higher bargaining power than the health unit in itself) which acted as an official buyer (during the pandemic, this tool is less and less used, given grave emergency conditions and thus the possibility of wavering from this tool).

Since the pandemic is hitting Italy at a much slower rate than in February and March, Italy could use ESM funds to gain access to resources for improving the pitfalls of its health system. In this context, though, the supervision of procurement assumes a crucial role, as huge investments could be accompanied by the rise of perverse phenomena that are frequent in emergency situations, which the anticorruption authority emphasised in a recent inquiry (ANAC, 2020). Centralized procurement has proven to be a most useful tool that could definitely be used more in these types of situations (Bandiera et al. , 2009).

#### 5. Conclusion

With respect to the proposal of the EU Commission, the only funds which are immediately available to EU Member States to use for healthcare purposes are the ones coming from the European Stability Mechanism. They amount to 2% of Members States' GDP. In this brief, I have analysed Italy as a case study, underlining the indicators where this country is lagging behind and where this country could potentially invest, such as in the number of beds in intensive care units. Receiving the funds should be accompanied by ensured quality of spending so as to avoid wastefulness. In public procurement, in fact, the emergency phase has already underlined some squandering of funds, including huge variations in the price of medical supplies purchased.

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