Public Expenditures on Education and Health in the Kyrgyz Republic before and during the Global Financial Crisis

Roman Mogilevsky
Center for Social and Economic Research CASE-Kyrgyzstan

Conference «The impact of the global financial crisis on public service delivery in economies of the former Soviet Union», Kyiv, 17 May 2011
Contents

- Country background and periods in its recent development history
- Pre-crisis economic and fiscal developments
- Macroeconomic and fiscal situation in 2009-2010
- Public expenditures on education
- Public expenditures on health
- Conclusions and recommendations
Country Background

- Located in Central Asia, population – 5.5 million
- GDP per capita – USD2,283 PPP (2009); low income country according to the WB classification
- Important dates in the country development:
  - 1991 – independence
  - 2005 – change of political regime
  - 2006-2008 – gradual stabilization and growth
  - 2009 – economic crisis
  - 2010 – recovery interrupted by the second change of political regime and violent internal conflict
- The paper covers 2007-2010
Economic and Fiscal Developments before the crisis

- Good economic growth (with rate >8%) in 2007-2008 driven by remittances, exports and re-exports
- General government revenues (GGR) at ≈ 30% GDP; key sources – taxes on imports (33% GGR), pension contributions, foreign grants
- General government expenditures – 31% GDP in 2007, 29% GDP in 2008
- Positive surplus of the GG budget in 2008 for the first time in the country’s history
- Major changes in fiscal policy at the end of 2008 (new Tax Code, hike in public investments)
Macroeconomic and Fiscal Situation in 2009

- Crisis led to reduction in imports, remittances and re-exports, which resulted in fall in GG revenues and arrears on government payments
- Russian grant and loan (in total equivalent of 10% GDP) in spring 2009
- Increase in public recurrent and capital expenditure – election-induced salary/pension increases, hydropower station Kambarata-2, other public investment projects
- GG revenue went up to 32% GDP, expenditure to 36% GDP
- Energy sector reform at the end of the year accompanied by large compensations to vulnerable groups of the population
Macroeconomic and Fiscal Situation in 2010

- Conflicts in 2010
- Negative impact of the events on many sectors of the economy, but less so on fiscal situation as affected sectors pay little in taxes
- Negative external shocks (Russian export duties on fuel, border closures, outflow of tourists etc.)
- As a result, GDP decline (by 1.4%) and high inflation (12-month CPI growth of 19.2% at the end of 2010)
- **Hike in GG expenditure** (39% GDP) and deficit (7% GDP) – unsustainable in the mid-term
- Changes in the **functional structure of GG expenditures**
Education System in Kyrgyzstan

- Well-developed and expensive system inherited from the Soviet period
- Growing number of students in the country
- Conservative policies aimed at maintaining the system
- Still high but falling enrolment rates for primary and secondary education
- Changes in the student-to-teacher ratios and teachers’ salaries
- Insufficient quality of education
- Sector reform programs exist, but these suffer from insufficient prioritization and lack of resources
Trends in Budget Financing of Education

- In 2007-2010, public expenditure on education decreased in % GDP and stagnated in real per capita terms
- Share of spending on primary and secondary education increases
- Reaction of education expenditure on the crisis:
  - Share of salaries in total expenditure increases, and capital expenditure decreases
  - Insufficient government resources are increasingly supplemented by direct household spending on education
Equity, efficiency and longer-term trends in the education financing

- **Significant regional inequality** in the education outcomes despite redistributive financing policies (categorical grants)

- **International comparisons** indicate that Kyrgyzstan spends large resources on education in relative terms, but very little in absolute terms

- In the mid-term, the main task in the education financing seems to be to increase resources available for the sector (e.g., by securing at least current level of expenditures in % GDP) and to improve education spending efficiency radically
Health Care System and Reforms in the Health Sector

- Unlike education system, the health care system in Kyrgyzstan went through a substantial reform
  - Restructuring of the health care system including massive adjustments in the number of health establishments, beds in hospitals, and staff
  - Changes in the financing mechanisms in the sector: MHI, single payer system, output-based, patients’ copayments, State Benefit Program (minimum guaranteed package of services)
  - Strengthening of public health service
  - Changes in the sector management system

- Health indicators demonstrated mixed performance with general trend of improvement in 2002-2009
Trends in Financing of Health Care

- **Public expenditures on health** have been increasing in recent years (apart from 2008)
- PHE in 2009 went sharply up
- **Funding increases** have been directed mostly to the State Benefit Program with increases not only in salaries, but also in spending on medicines and capital investments
- By preliminary estimates, PHE have increased further in 2010
- Private health expenditures are estimated to be of the same order as public ones; PvtHE have also grown considerably in 2009
Equity and Efficiency in Health Financing

- Recent spending increases have been accompanied by improvements in regional distribution of PHE
- Still, many barriers for access to health services remain
- International comparisons reveal relatively high PHE level in % GDP, but very low absolute spending
- Analysis of child mortality determinants suggests that efficiency of public health expenditures in Kyrgyzstan is higher than average for transition countries
- Focus on efficiency in the medium-term
Conclusions

- The Kyrgyz economy was growing well in the pre-crisis period; government revenue and expenditure have grown considerably.
- The impact of the global economic crisis on the Kyrgyz economy has been transmitted mostly through remittances and foreign trade.
- 2010 political events led to destabilization of the economic and fiscal situation in the country; public expenditure and budget deficit increased dramatically.
- Medium-term fiscal prospects are not very optimistic: GG budget expenditure and deficit are to be cut to a sustainable level.
Conclusions (2)

- During the crisis, public education spending has substantially decreased, especially investment programs.
- On the contrary, public health expenditure has increased.
- Health system performance in terms of outcomes, equity and efficiency seems to be much better in comparison to the education system.
- So, reformed sector—health care—did relatively well during the crisis, while non-reformed sector—education—suffered much.
- Both sectors face an acute problem of deep and chronic under-financing.
Recommendations

- Preserve the currently achieved levels of public expenditures on education and health in % of GDP
- Intra-sector redistribution of resources and their concentration on priority programs is necessary
- The role of households’ resources in financing of health care and education is to be increased
- The role of private sector in provision of services in both sectors is to be increased
- Better linkages between financing of education and health establishments and their performance are to be established
General Government Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Deficit/Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>30.5</td>
<td>29.9</td>
<td>-0.8</td>
</tr>
<tr>
<td>2008</td>
<td>31.3</td>
<td>29.2</td>
<td>0.7</td>
</tr>
<tr>
<td>2009</td>
<td>36.1</td>
<td>32.1</td>
<td>-4.1</td>
</tr>
<tr>
<td>2010</td>
<td>39.1</td>
<td>32.0</td>
<td>-7.1</td>
</tr>
</tbody>
</table>

% GDP
# Selected Health System Indicators

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2002</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of hospital beds, per 1,000 people</td>
<td>9.3</td>
<td>5.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Patients treated in hospitals, per 100,000 people</td>
<td>2.3</td>
<td>1.5</td>
<td>1.6</td>
</tr>
<tr>
<td>Life expectancy at birth, years</td>
<td>68.4</td>
<td>68.2</td>
<td>69.1</td>
</tr>
<tr>
<td>Death rate associated with tuberculosis, per 100,000 population</td>
<td>6.7</td>
<td>20.1</td>
<td>11.0</td>
</tr>
</tbody>
</table>
Public Health Expenditures

2007: 3.5% GDP, 1,191 Soms per capita
2008: 3.0% GDP, 1,118 Soms per capita
2009: 3.8% GDP, 1,402 Soms per capita
# Structure of Public Health Expenditures

## By program

<table>
<thead>
<tr>
<th>Year</th>
<th>Medical-social assistance, administration, education and Hi-tech fund</th>
<th>Public health care</th>
<th>Additional drug package of MHI</th>
<th>Other components of State benefit program</th>
<th>Family medicine centers</th>
<th>Assistance in hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.0</td>
<td>3.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2008</td>
<td>3.0</td>
<td>3.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2009</td>
<td>3.0</td>
<td>3.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

## By economic classification

<table>
<thead>
<tr>
<th>Year</th>
<th>Other costs</th>
<th>Nutrition</th>
<th>Medicines</th>
<th>Capital expenditures</th>
<th>Utilities</th>
<th>Salaries and contributions to the Social Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2008</td>
<td>3.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>2009</td>
<td>3.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Public expenditure on health – international comparison, 2007

Public expenditure on health per capita, USD at PPP  
Public expenditure on health, % GDP
Public expenditure on education in selected countries, 2008

- **Public expenditure on education per student, USD at PPP**
  - China: 967 USD at PPP
  - Kazakhstan: 1589 USD at PPP
  - Kyrgyz Republic: 500 USD at PPP
  - Russian Federation: 2982 USD at PPP
  - Ukraine: 3440 USD at PPP

- **Public expenditure on education per student, % of GDP per capita**
  - China: 28.4%
  - Kazakhstan: 18.2%
  - Kyrgyz Republic: 51.8%
  - Russian Federation: 25.4%
  - Ukraine: 87.7%
Gross primary completion rate by region, %

The graph shows the gross primary completion rate by region in percent. The regions are indicated on the x-axis, and the completion rate is shown on the y-axis. The graph includes a line indicating the country average.
GG Expenditure by Function

[Bar chart showing expenditure by function for years 2007 to 2010.

- % GDP
- % of total GG expenditure

Legend:
- Other sectors
- Social protection
- Education
- Health care
- Economy
- Defense, public order and security
- General government services]
Gross Enrolment Rates by Education Cycle

%!of total population of corresponding age

1990 2001 2008

Preprimary
Primary
Secondary
Tertiary

109.7 95.7 94.7
102.5 85.4 85.1
34.2 40.2 16.7
14.7 10.3 16.7

0 20 40 60 80 100 120

% of total population of corresponding age
Student-to-Teacher Ratios by Cycle

Preprimary
Primary and secondary school
Secondary professional
University

Ratios: 11.1, 12.8, 12.0, 12.4; 11.3, 15.3, 15.0, 12.4; 13.7, 15.4, 15.1, 14.9; 15.4, 19.8, 25.1, 26.2
Average Salary in Education

% of average wage in the economy

% of minimum consumption budget
Education Expenditures of Republican and Local Budgets

- Republican budget
- Local budgets

2007: Republican budget = 3.7%, Local budget = 3.1%
2008: Republican budget = 3.6%, Local budget = 2.6%
2009: Republican budget = 3.8%, Local budget = 2.4%
2010: Republican budget = 3.9%, Local budget = 2.1%
Education Expenditure by Function

- Domestically financed capital expenditures
- Current expenditures financed by special means
- Purchases of goods and services
- Support to students (nutrition and stipends)
- Utilities
- Salaries and contributions to Social Fund

% GDP

2007 2008 2009 2010
Public Expenditure on Education per Student, All Cycles

Thousand soms, 2009 constant prices