

MANAGEMENT SUMMARY JULY 2020

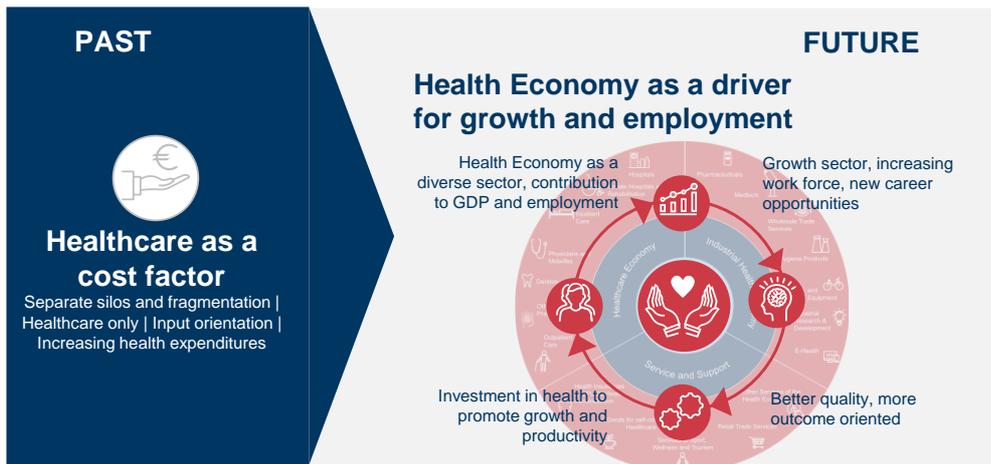
# The Economic Footprint of the Health Economy in Colombia

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Prof. Dr. Dennis Ostwald  
Dr. Sandra Hofmann  
Dennis Seibert  
Patrick Beule

## Challenging the past understanding of healthcare

Health expenditures have a substantial impact on the economy. New data, calculated by WifOR, is challenging the past understanding of healthcare as an economic burden, and fostering the paradigm shift towards a global Health Economy. WifOR's calculations show that the global Health Economy accounted for 7.6 percent of the global gross value added (GVA) and secured 5.8 percent of global employment in 2014. For 2020, WifOR estimates the contribution of the Health Economy to global GVA to be 9.3 percent.



## Investments in health lead to economic growth, wealth and employment

Health expenditures create economic growth, wealth, and well-being along the value chain of care: from the inpatient and outpatient sector (e. g. hospitals, practitioners, care) to the Industrial Health Economy (e. g. pharma, biotech, medtech, R&D, e-health). By measuring the contributions along the entire value chain, Health Economy Reporting (HER) can offer robust conclusions and actionable recommendations to key decision makers. It also makes comparisons with other important sectors of the economy possible while enabling the impact assessment of future health policy decisions.

***„Health investment is the smartest investment – it pays off.“***

*Dr. Zsuzanna Jakob, WHO Regional Director for Europe*

WifOR's research is aligned with initiatives of the World Health Organisation (WHO). The WHO also stresses the fact that health systems are essential in determining the economic performance and stability of a country. Further, health systems have a positive impact on the economic performance of other sectors of the economy. Beyond that is their crucial role as a key sector for driving forward the implementation of local and national goals for sustainable development, by enhancing its employment, training, and purchasing functions both locally and nationally.<sup>1</sup>

<sup>1</sup> World Health Organization, "Economic and Social Impacts and Benefits of Health Systems" (Copenhagen, 2019).

## Increasing health investments are necessary to achieve the Sustainable Development Goals (SDGs)

SDG 3 aims to “ensure healthy lives and promote well-being for all at all ages”. According to the Lancet, additional health investments of USD 371 billion are needed per year in lower- and middle-income countries by 2030 to reach health system targets.<sup>2</sup> The authors estimate a financing gap of USD 20-54 billion per year. If funds should be made available, those investments would save 97 million lives and increase life expectancy drastically.

## Health investments in Colombia are far below the global average

With a 7.2 percent share in the gross domestic product (GDP), health expenditures in Colombia are far below the global average. Against the background of the multidimensional benefits of health investments put forward by research done by the WHO and WifOR there is a need for action in Colombia.

	 Colombia	 Mexico	 Argentina	 Brazil	 Turkey	 Global	 Germany
Share of health expenditures in GDP in 2017	7.2 %	5.5 %	9.1 %	9.5 %	4.2 %	9.9 %	11.2 %
Share of Health Economy in GDP in 2017	6.8 %	5.3 %	8.8 %	7.2 %	4.1 %	8.0 %	12.0 %
Labor force share in overall economy in 2017	7.4 %	5.6 %	8.6 %	7.4 %	5.7 %	6.2 %	17.0 %

## Gross value added and employment as key economic indicators of the Health Economy

Gross value added (GVA) measures the contribution of sectors to the economic performance of a country. The sum of GVA over all sectors plus the net tax on goods is commonly known as the gross domestic product (GDP). As a key economic indicator within countries’ national accounts, GVA makes comparisons between local units (e. g. countries, regions, districts) and sectors possible. The second indicator, employment, comprises all persons of working age that are either in paid employment or are self-employed.

By means of those two indicators, HER quantifies the contribution of the Health Economy to the total Colombian economy. The main data source of the Colombian HER is the Eora Global Supply Chain Database. Eora offers

<sup>2</sup> Karin Stenberg et al., “Financing Transformative Health Systems towards Achievement of the Health Sustainable Development Goals: A Model for Projected Resource Needs in 67 Low-Income and Middle-Income Countries,” *The Lancet Global Health*, 2017.

information on GVA for different sectors in Colombia up to the year 2015. Moreover, its structure allows for the calculation of spillover effects that are generated in the total Colombian economy. Employment figures are based on data by the International Labour Organization (ILO). National accounts data in combination with ILO are used to extrapolate the 2015 results for more recent years. The Health Economy is extracted from various sectors and, therefore, is called a cross-sectional sector.

## The Health Economy is a stabilizer for the Colombian economy

A direct GVA of USD 19.2 billion meant a 6.8 percent share of the Health Economy in Colombia's economic performance in 2017. With an employment of 1.6 million, the share of the Health Economy was 7.4 percent in total employment in Colombia. The sector is, therefore, one of the most important for growth and employment in Colombia.

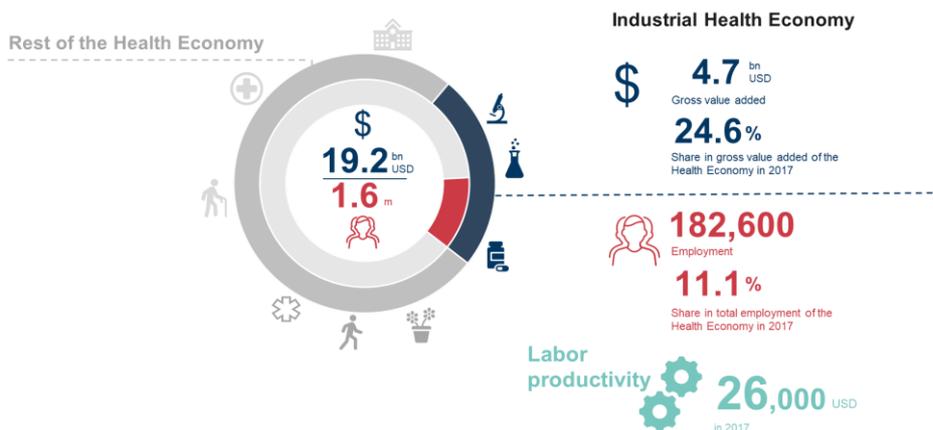


Even more strikingly, the average annual growth rate of the sector's GVA during the last decade was 4.2 percent and, therefore, much higher than GVA growth of the total economy in Colombia (2.9 percent). During the same period, employment of the Health Economy has increased by 3.1 percent every year. Again, this number is higher than employment growth of the total Colombian economy (2.8 percent).

Beyond direct effects, the Health Economy generates spillover effects within the Colombian economy. Due to intermediate products and the partial spending of income generated in the Health Economy and its suppliers, the sector generates indirect and induced effects. The sum of direct, indirect, and induced effects, the economic footprint of the sector, amounted to USD 30.9 billion and an employment of almost 2.4 million. This means that, for every USD 1 generated by the Health Economy, an additional USD 0.6 were generated in the Colombian economy. Five jobs in the Health Economy secure two additional jobs within the Colombian economy.

## The Industrial Health Economy is the productive pillar of the sector

The share of the Industrial Health Economy in the sector's GVA was 24.6 percent in 2017. The sub-sector generated USD 4.7 billion and supported almost 183,000 jobs (11.1 percent in employment of the Health Economy). The labor productivity of the sub-sector was USD 26,000 and was, therefore, much higher than the labor productivity of the Health Economy (USD 12,000).



Since 2008, both the sub-sector's GVA and employment have grown by 1.6 percent each year. Therefore, the Industrial Health Economy has grown slower than the sector as a whole and than the total economy in Colombia. Against this background, there is a need to develop the sub-sector into a dynamic industrial pillar in Colombia in terms of value added and employment.

The Industrial Health Economy itself is a heterogeneous sub-sector. It comprises the manufacture of pharmaceutical products and medical technology as well as service-oriented goods like R&D and wholesale trade.

## Novartis contributes USD 41 million to the GVA of the Mexican Health Economy

In 2019, the contribution of Novartis' operations and R&D activities in Colombia was a GVA of USD 41 million and an employment of 332.<sup>3</sup>

In addition, Novartis Colombia shows high global interdependencies. The company's global spillover effects amounted to a GVA of USD 53 million and an employment of 882. Hence, its global economic footprint was a GVA of USD 94 million and an employment of 1,214. Every USD 1 of GVA by Novartis Colombia generates USD 1.3 globally. Every job secures 2.7 additional jobs.

By incorporating HER into its materiality assessment, Novartis creates better understanding of the societal and economic value of corporate activity. HER

<sup>3</sup> FES impact valuation figures are reported for the year 2019. Due to data availability, HER figures are reported until the year 2017.

adds to Novartis' existing FES impact valuation that combines financial, environmental, and societal indicators measuring Novartis' impact in Colombia.

## **Health investments in Colombia are crucial to set up a defence plan against future pandemics**

In the light of the COVID-19 pandemic, it has become obvious that substantial health investments in Colombia are crucial not only to stabilize the economy but also to set up a defence plan against future pandemics.

During the COVID-19 pandemic, policymakers in Colombia need to address urgent measures that are primarily ensuring access of the vulnerable to diagnostics and treatment and improving R&D for accelerated development of diagnostics, treatments, and vaccines.

However, it is equally important to increase investments in health after the pandemic. Instead of budgeting health expenditures on an annual basis, policymakers in Colombia should consider those expenditures as an investment with its return being a resilient Colombian health system that features a pandemic preparedness.

## **HER should be set up as an evidence-based monitoring tool to support political decision making in Colombia**

Besides strengthening all sub-sectors of the Health Economy, a continuous reporting of the sector by the Mexican ministries together with the national statistical institute would provide an evidence-based monitoring tool to support decision making of economic and health policymakers. The present report is a starting point for a new, objective dialogue between politicians, statistical institutes, associations, and companies.

**WifOR** Institute is an independent economic research institute that originated from a spin-out of the Department of Public Economics and Economic Policy at the Technical University of Darmstadt, Germany. WifOR's fields of research include Economic, Environmental and Social Impact Analyses as well as Labour Market and Health Economy research.

#### CONTACT

WifOR Institute

Joseph-Haydn-Straße 1

10557 Berlin

[www.wifor.com](http://www.wifor.com)

+49 30 2325666 50

[office@wifor.com](mailto:office@wifor.com)