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## POLICY PAPER # 4

### HOSPITAL FUNDING IN ALBANIA

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#### PURPOSE

This note is prepared to assist in briefing senior health officials on matters related to hospital funding.

#### BACKGROUND:

Hospital funding in Albania for many years has been based on a line-by-line calculation of the approved expenditures in each hospital and the funds forwarded by the Ministry of Health to cover those expenditures. The Ministry also determines the staff to hire for each department and function, the pharmaceuticals to order, etc.

Each year, the budget has been revised based on the previous year's budget plus adjustments to maintain the status quo or for political purposes. Historically renewed budgets such as this tend to result over time, in hospital resources no longer matching population size or needs.

#### CURRENT HOSPITAL ISSUES

The current hospital funding system has led to several problems. For example:

- Managers have very little discretion or control over their budgets,
- Staff cannot be transferred within the facility or region to meet demand,
- Funds cannot be transferred between departments to meet needs,
- Physicians and nurses often expect extra payments for their services,
- Directors are appointed for reasons other than management skills and commitment and often for short periods,
- Funding levels and bed numbers vary dramatically by region and district and do not match populations served,
- At present, there are regions that have more than 50% greater funding levels relative to populations served than other regions,
- There are regions with twice the beds per population as other regions,
- Occupancy levels are very low and despite available beds, the people do not seek hospital care due to a lack of confidence.

#### PROPOSED FUNDING MODEL:

It is proposed that Albania focus on a model which could be described as:

an appropriate allocation of a fixed budget among the hospitals based on their populations served and share of workload. It could also be described as distribution of pieces of a pie. The size of the pie is a decision of government. The task of the HII is to determine what size piece of the pie should go to each hospital. The objective is to make this determination as equitable as possible based on the evidence.

The allocation model is distinctly different from the reimbursement model in which hospitals are reimbursed or financed based on the number of services provided, cases treated or bed days or DRGs or any other measure. Under such systems, HII would be expected to pay a set fee specified for each service. In such circumstances, the number of services delivered will always increase and the budget will be exceeded.

The allocation of funds could be improved in the next 2 or 3 years by increasing or decreasing current budgets by incremental amounts based on factors such as beds and budgets per population. As data collection improves, the factors could be enhanced by taking into account the age structure of populations of regions and by tracking the movement of patients to hospitals outside their regions of residence for care. The logic is that hospitals should be funded for populations served whether from their region or not.

In subsequent years if desired, HII could consider developing and using DRG or case-mix information to include workload and intensity of care provided by hospitals as part of the methodology. It is not recommended that the case-mix or DRGs be used to fund hospitals directly. Case-mix systems are expensive and time consuming to implement. The benefits do not warrant the expense at this time.

Regardless of how funding levels are determined, it is recommended that global budgets be introduced when appropriate. Global budgeting means hospital management has greater flexibility and control over their funding in order to assign resources to areas of greatest need and to create efficiencies and good quality care. As a condition of global budgets, hospitals should have a governance system and qualified, skilled management appointed based on merit for a reasonable term so as to create continuity. Corruption needs to be under control for global budgeting to work.

## **CONCLUSION**

Whether hospitals are funded through a health insurance system with insured people paying contributions or premiums, copayments, or deductibles; or whether there is a national health services system with universal coverage and revenues from taxation; some tools are necessary. These include a good funding model, a package of services defined for each hospital, a good costing system for hospital services, and a set of performance indicators by which to measure success in hospitals.