

Appendix 3: Pooling of Health Care Funds and Chapterless Financing



ZdravReform/ЗдравРеформа

Pooling of Health Care Funds

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In the Soviet period, the flow of health care financing in the countries of Central Asia (CCA) was linked to the Ministry of Finance's budgeting process. Health care budgets were formed at each level of local administration, which financed and owned the health facilities under its jurisdiction. This fragmentation of health care budgets led to duplication in the health care system, and created a barrier to effective and equitable reallocation of health care resources. When the health sector was fully funded during Soviet times, the impact of the duplication and inefficiency caused by the fragmented budgeting process was not fully felt. As health sector resources have sharply contracted in the CCA, however, there is an urgent need to consolidate and pool these limited resources, so they can be allocated and managed most effectively.

To pool health care funds, all state or public funds allocated to pay for health services for the entire population of a geographic area are accumulated in a single budget. Health care funds should be pooled horizontally across all parts of the health care system, and vertically across levels of local administration in a geographic area. To be most effective, the geographic area for pooling of health care funds should not be smaller than an oblast. Why do funds need to be pooled horizontally and vertically at the oblast level in the health sector? There are five main reasons, which are discussed below.

First, there is wide variation in the availability of per capita health care resources in the CCA, both within and between oblasts. There is a particularly wide gap in per capita resources between urban areas and rural rayons (districts). These variations in per capita health care resources stem from historical budgeting patterns, which are driven by the relative political and economic power of different local administrations, rather than from variations in the health care needs of the population. Oblast-level pooling of funds is necessary to implement geographic resource allocation mechanisms that improve equity by allocating resources by health care needs.

Second, the public financing of health care services is an insurance mechanism, or a way of pooling the risk of economic loss associated with health problems across groups of people. Risks are pooled to increase the predictability of the loss and to redistribute the costs of unexpected losses. The size of the risk pool is important for several reasons. First, the larger the risk pool, the more predictable the risks and the greater the probability of correctly assessing the probability of a loss occurring. In addition, a small risk pool, such as a rural rayon, may not be able to generate sufficient resources to cover even their predicted losses. Finally, all health insurance mechanisms improve equity by redistributing the costs of illness from the sick to the healthy, and small, fragmented risk pools are a barrier to redistribution. Therefore, health financing and delivery systems that pool resources at the level of local administration weaken the insurance function of a publicly financed health system because they create small risk pools that do not adequately predict or redistribute the costs of losses associated with health problems.

The third reason that pooling of health care funds at the oblast level is important is because it allows planning in the health sector. If health care budgets are fragmented, it is difficult for health policymakers to accurately assess the level of resources available, which is essential information to set health sector priorities and plan capital investments.

The fourth reason that pooling health care funds at the oblast level is important is because it allows a seamless health delivery system to be established. Currently, separate health delivery systems exist at each level of administration: republican, oblast, city, rayon, and rural systems (which were historically tied to collective farms). Each system is financed and operated by different government units. Having five parallel health delivery systems creates tremendous duplication within the health sector. For example, in an oblast capital city there will be an oblast pediatric hospital and a city pediatric hospital, with no clear division between the functions and services provided.

There is no incentive to consolidate health delivery systems under the current fragmented budgeting process, however, because any savings generated in one delivery system by reducing hospital capacity cannot be retained or transferred to another budget, and the funds will leave the health sector. As the level of financing is determined by normatives related to production inputs such as the number of beds, if the overall number of beds decreases, savings are not reinvested but lost to the health sector. This is not the case if the health funds are pooled. The pool of funds remains the same even if facilities or hospital

beds are rationalized. While the current budgeting process contains an incentive not to rationalize health providers, creating a pool of funds removes this perverse incentive, and it becomes easier and more advantageous to rationalize the health sector.

The issue of reinvestment of savings from rationalizing the health sector is critical in the current under-financed system. Currently, only two to three percent of the GDP of most CCA is allocated to the health sector. The overall level of health financing is much too low, with six to nine percent a more reasonable percentage of GDP allocated to the health sector. Therefore, pooling of funds is critical to allow any health sector savings that are obtained through rationalization to be retained in the health sector.

The fifth main reason to pool the health care funds is to implement new provider payment systems, which have the purpose of increasing health sector efficiency. Vertical and horizontal pooling of health funds allows the allocation of health resources to be disengaged from historical budgeting patterns and to be allocated by new payment systems according to activity and the population's health needs. A pool of funds at a geographic level not smaller than an oblast is necessary for new provider payment systems in order to establish the conditions for competition, which include stable prices and the free movement of resources across the system.

Because under new payment systems funding to providers is no longer determined by production input measures, such as the number of beds, but is instead based on the provision of health services to the population, the funds in the system must be allowed to follow the patient. In a competitive system, patients move between providers at different levels of the system and different geographic locations across rayons and cities. Patients, together with their primary care physicians, choose providers based on quality, cost, and convenience, and health funds "follow" the patients to their providers of choice. The choice-driven competition created by free movement of funds across geography and levels of the system is impossible if health funds are not pooled at the oblast level.

In addition, if providers across levels of the system and geographic area are going to compete for funds under the new provider payment systems, they must receive the same price for providing the same service. If funds are pooled at a level lower than the oblast, the same service may be reimbursed at different prices in different rayons or cities. Fair competition is impossible, because facilities in wealthier geographic areas that get reimbursed at higher rates can provide better quality services and attract more patients from other geographic areas. This is frequently observed as the rural population often bypasses the Central Rayon Hospital to obtain services in the oblast center. Therefore, the stable prices needed for health facilities to compete fairly on quality and efficiency can only be achieved if health funds are pooled at the oblast level.

In summary, one of the main goals of health reform is to improve allocation of scarce health care resources to improve the effectiveness and quality of the system. This requires rationalization of the delivery system and the implementation of new payment systems that reward providers for providing more cost-effective, higher quality services and attracting more patients. The horizontal and vertical pooling of health care funds at the oblast level is a necessary precondition for achieving these goals. The pooling of funds is also necessary to improve the equity of the system because it allows health care resources to be allocated according to the health care needs of the population through geographic allocation mechanisms and new provider payment methods.