Policy brief #1
Mobilizing resources for health care in Kyrgyzstan

1. Sources of funding

Kyrgyzstan mobilizes resources for health care using three main sources: general tax revenues, payroll taxes and out-of-pocket payments. In 2001, general tax raised 45% of total health revenues, payroll taxes contributed 4% and out-of-pocket payments amounted to 51%.

- **General tax revenues**. General tax revenues are made up of Republican and local taxes. Republican tax revenues mostly fund Republican health facilities located primarily in Bishkek. Local tax revenues come from oblast, rayon and city level taxes. With the Single Payer reforms, local taxes are integrated in oblast health insurance funds and paid to oblast, rayon, city facilities. (See Policy Brief #2)

- **Payroll tax**. Payroll tax was introduced in Kyrgyzstan in 1997 along with the Mandatory Health Insurance Fund (MHIF) as a compulsory insurance scheme. The payroll tax contribution rate is 2% for the employed levied on employers. Farmers working on their own land are required to pay the equivalent of 5% of their land tax as health insurance contribution. Direct transfers from the Republican budget fund health insurance coverage of children under 16 and social welfare recipients. Since 2004, pensioners are also covered from the Republican budget.

- **Out-of-pocket payments**. Out-of-pocket payment is a contribution made by the population directly at the time of using health services. Out-of-pocket payments can be formal or informal, and both of these forms exist in Kyrgyzstan at the moment. Formal co-payments have been introduced with the Single Payer reforms. (See Policy Brief #2 and #3). Co-payments are required (i) for specialist outpatient care both in Family Medicine Centers and Ambulatory-Diagnostic Departments; and (ii) for inpatient care in hospitals. Official co-payment is not required for primary care.

2. Level of resource mobilization

Total health expenditures. The latest year for which we have a complete picture of resource mobilization is 2001 since data on out-of-pocket expenditures have not been collected on a routine basis. In 2001, Kyrgyzstan spent 4% of GDP on health care. On per capita basis, this means 596 soms or 12.3 dollars per capita.

Table 1. Total health expenditure, 2001

Health spending as % of GDP	% of GDP	
Budget	1.78%	
MHIF	0.16%	
Private out-of-pocket spending	2.05%	
Total health spending	4.00%	
Per capita health spending	**Soms**	**Dollars**
Budget	265.8	$5.5
MHIF	24.3	$0.5
Private out-of-pocket spending (formal + informal)	305.6	$6.3
Total	595.7	$12.3
Percent of total health spending	**% of total**	
Budget	44.6%	
MHIF	4.1%	
Private out-of-pocket spending	51.3%	

Looking at a time-trend in total health expenditures is difficult because there is no reliable estimate of private spending prior to 2000. Some indicative data shows, however, that private spending around 1997 was somewhat higher than in 2001, above 50% of total health expenditures. As described below, public spending on health has been declining during these same years. Therefore, even if we cannot show exact data, we can speculate that overall expenditures on health have declined since the mid-1990s.

Public health expenditures. There is clear evidence that the level of public expenditures on health have been falling. In 1995, Kyrgyzstan spent 3.96% of GDP on health, which declined to 2.19% by 2002.

Looking at it in another way, the health sector receives a smaller and smaller share of total government expenditures. Figure 2 illustrates health spending as a percent of total state budget spending

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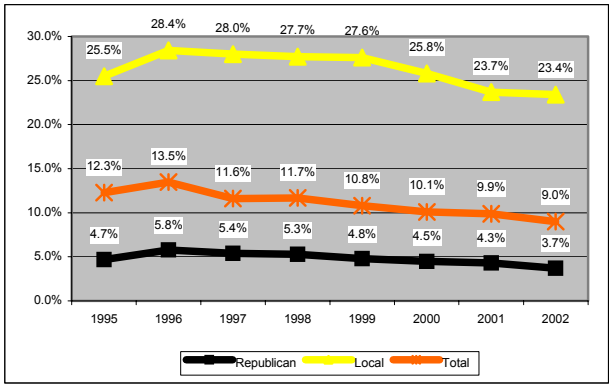
between 1995 and 2002. It shows that public expenditures on health comprised 12.2% of total public expenditures in 1995 and fell to 9.6% by 2002. Our preliminary estimates suggest that this trend continued in 2003.

Table 2. Public health expenditures as a % of total state budget expenditures



Source: Central Treasury of the KR under the Ministry of Finance of the KR (CT KR under MoF), Mandatory Health Insurance Fund (MHIF), National Statistical Committee (NSC).

One often cited reason for the decline in public funding is the tight macro-economic pressure Kyrgyzstan has been under in order to revitalize the economy and to meet obligations to international financial institutions. While this explains why the overall level of public expenditures is falling, it does not explain why the share of the health sector in total health expenditures is shrinking.

3. Policy issues

In terms of the level of funding, the functioning of the health care system may be jeopardized if health expenditures continue to decline. Further declines in health expenditures will undoubtedly adversely affect population health, increase poverty rates and thus undermine the social and economic development objectives of the country. The decline in public spending experienced over the previous years is reaching critical levels. With public spending at 2% of GDP Kyrgyzstan now belongs to the lowest spending countries among transition economies.

- Decline in public funding for health will lead to an increase in untreated health conditions. Many illnesses if left untreated will reduce the productivity of the workforce as well as the productivity of children in school leading to long-term economic and social impact. For example, reduction in funding may lead to an increase in untreated hypertension, which will lead to an increase in stroke and heart attacks in men and women in their most productive years. As a result, the economy will lose its most productive workers, and families will lose their main breadwinners creating increased risk of impoverishment. There are many such examples where investment in health improves productivity and contributes to economic development and sustainable livelihoods: detection and treatment of anemia and asthma, health promotion efforts to iodize salt, prevention of brucellosis, etc.

- Decline in public funding will place the State Guaranteed Benefit Package at risk, as the health sector will not be able to finance its commitment to the population to deliver a set of basic health services. This will undermine the reforms implemented in the health care system over the previous years.

- Decline in public funding will shift the burden of payment to households leading to the re-introduction of informal payments. Since out-of-pocket payments expose households to sudden large expenditures, the return of informal payment can raise impoverishment and will undoubtedly increase inequities in access to care.

- Decline in public funding will contribute to deteriorating health outcomes by reducing access to needed care and reducing health care facilities' ability to provide good quality services.

- Decline in public funding will contradict the government's commitment to the Comprehensive Development Framework and the National Poverty Reduction Strategy both of which place great emphasis on social sector activities as a corner stone of poverty reduction.

In terms of its sources of funding, Kyrgyzstan is on track to create a diversified revenue base for health care using multiple funding sources. Most OECD countries as well as many transition economies have recognized that it is advantageous to rely on several resource mobilization instruments in the health sector at the same time rather than only on one instrument. This is because each source of funding has its strengths and weaknesses:

- **Out-of-pocket payments.** The advantage of out-of-pocket payments is that they are easy to collect as patients directly pay providers without the intervention of an intermediary. This why the share of out-of-pocket payments in total health expenditures is so high in countries with weak institutional capacity. But out-of-pocket payments have a severe disadvantage: they place a heavy financial burden on the poor and on those who are ill. If the illness is a serious unexpected illness like stroke or heart attack, the unexpected large expenditures that are required to treat such grave conditions can tax household resources to the point of pushing them into impoverishment. For this reason, countries with good institutional capacity find that it is more efficient and equitable to use health financing mechanisms that allow people to pay small amounts during their life-time when they are healthy in the form of taxes, social insurance contribution, or private insurance premiums but use health care for free or for small out-of-pocket payment when ill.

- **General tax.** At the other end of the spectrum of health financing instruments is general tax. The advantage of this financing mechanism is that it protects people from impoverishment because tax payment is not associated with illness episode, people pay when they are healthy and use the services for free or for small co-payment when ill. General tax has been found to be a very equitable mechanism to raise resources. The disadvantage of this resource mobilization instrument is that it requires a formal economy and good institutional capacity to collect sufficient taxes. It is often argued that in countries where general tax is the main source of financing, health sector funding is exposed to fluctuations in political priorities since the amount of resources the health sector receives in any given year is decided during the annual budget negotiations and the health sector is just one of many competing public sectors.

- **Payroll tax.** Payroll tax is the youngest funding source in Kyrgyzstan. The advantages of payroll tax are similar to that of general tax: it provides good risk-protection, protects from medical impoverishment and it is an equitable way of raising resources. Unlike general tax, payroll tax is set as a % of the wage bill and is not as exposed to changes in political priorities as general tax. Its disadvantage is that it requires a formal economy where salaries and wages are easy to monitor and tax. Economies with large agricultural sectors where incomes are non-cash and with large informal sectors with hidden employment find it difficult to collect substantial resources through payroll tax.

Since each funding source has its advantages and disadvantages, most countries find it advantageous to rely on a mix of financing. Kyrgyzstan also follows this pattern although the desirable balance between these various instruments could be further discussed. Such a discussion should take into account the macroeconomic reality but also poverty reduction objectives and health system performance goals.