Policy brief #7
WHO briefing points for the 2004 Consultative Group Meeting

This Policy Brief was prepared for the 2004 Consultative Group (CG) Meeting of the Kyrgyz Republic as WHO briefing points. The CG Meeting is an opportunity for the government and donors to jointly assess progress on poverty reduction. The 2004 CG meeting in the Kyrgyz Republic focused on three issues: (i) progress on poverty reduction, (ii) aid alignment and harmonization and (iii) governance and corruption.

The health sector has played an active and progressive role in the past years in all three of these areas. The health sector is an important contributor to poverty reduction, donors have been strategically engaged in health reforms under the active coordination of the government, and significant progress has been made in improving governance and transparency.

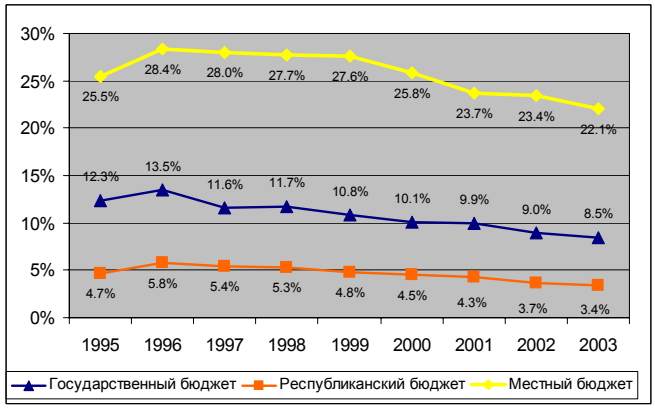
However, there are three critical success factors to sustain these achievements and to further contribute to poverty reduction through the health sector: (i) ensuring appropriate level of funding; (ii) addressing regional inequalities in funding; and (iii) ensuring that hard-won improvements in governance and corruption are not jeopardized in the budgeting process which is still characterized by input based logic and weak execution of planned expenditures.

(i) Ensuring appropriate level of funding for the health sector

Since 1996, the health sector has been receiving a smaller and smaller share of the government budget. This decline occurred both at the level of the Republican and Oblast budgets as Figure 1 illustrates.

This decline in the health budget share signals that the health sector is less and less of a priority when it comes to prioritizing and allocating public expenditures. Yet, the stated objectives of the Kyrgyz government continue to emphasize health as a priority area in the fight against poverty. Thus, there seems to be a conflict between stated government objectives and budget priorities and this requires the attention of the Kyrgyz Government at the highest levels. Ensuring sustainable funding for the health system is a critical success factor for the implemented reforms to work and contribute to poverty reduction.

Figure 1. The health sector has been getting a smaller and smaller share of the government budget since 1996 (health expenditures as % of the budget)

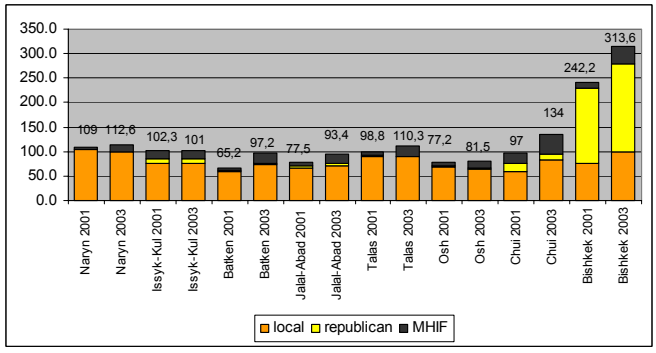


Source: Treasury data

(ii) Addressing regional inequality in health expenditures

There has been significant regional inequality in health care financing. Figure 2 shows that in 2001, per capita health expenditures were 2-5 times as high in Bishkek as in other oblasts of the country. This funding gap further increased by 2003 between Bishkek and the poorest oblasts of the country (Batken, Naryn, Talas). It is often argued that the reason for this inequality is the tertiary medical facilities located in Bishkek that serve the entire country. Various WHO surveys and the research of other organizations show that this is an incorrect assumption: tertiary facilities mostly serve the population of Bishkek and Chui oblast as the poor are too poor to afford travel costs and other costs associated with getting treatment in tertiary facilities. Progress with restructuring and rationalization of excess capacity in Bishkek and Osh is a precondition for more equitable allocation of funds in the future.

Figure 2. Public expenditures on health are not pro-poor (per capita health expenditures at 1995 prices)



Source: Treasury, MHIF data

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(iii) Improving governance and reducing corruption throughout the public sector

As the Kyrgyz Republic is making steps to improve governance and reduce corruption, the experience of the health sector provides important lessons. The Manas Reforms have had documented successes in reducing under-the-table payments in health care facilities although not yet eliminating them. Other sectors could benefit from four lessons we learnt:

- **Efficiency gains can be used to increase salaries.** Outside of Bishkek and Osh, most oblasts have taken significant steps to downsize inefficient and wasteful excess capacity inherited from the Soviet health care system. A recent WHO study showed that hospitals that have downsized saved up to 40% on their utility expenditures over the past 4 years. These savings can be used to increase salaries of medical staff and reduce their incentives to take under-the-table payments. However, if budgets decline for those areas where restructuring has taken place, then efficiency gains are taken away from the health sector, and salaries will not increase. Thus, the direct implication of declining budgets will be an increase in under-the-table payment, increase in corruption, and increased financial burden on households.

- **Output based budgets increase transparency and reward good performance**. The health sector has moved away from historical input-based budgets. In hospital care, providers are paid on a per case basis, and in primary care based on the number of enrolled patients. Output based payment reduces opportunities to use personal and political influence in the budgeting process, increases transparency by providing information about provider activity, and allows financially rewarding better-performing providers. To ensure that output-based payment in the health sector does indeed translate into incentives for better performance, the public sector budgeting process needs to change as well and reflect this new mentality. Specifically, it needs to be acknowledged that the size of the delivery system should **no longer** determine the level of funding for the health sector. This requires a predictable spending envelope that is **not** linked to the size of capacity but some measure of health and service need.

- **Formal co-payments and patient education can reduce patient incentives to pay informally**. Formal co-payment was introduced for hospital care with the objective of formalizing under-the-table payments and reducing patient incentives to pay informally. This policy had many advantages for patients: a one-time payment made at the time of admission with a clearly communicated price, and the promised availability of services, medicines and supplies. The hotline of the Mandatory Health Insurance Fund is publicized in hospitals so that complaints of double-payments can be filed. Facilities were allowed to keep the co-payment and re-channel part of it for higher salaries. The incentives built into this arrangement will not work if budget funds decline. If budget funds decline, medicines and supplies will be less available, and patients will have to pay twice. Further, physician salaries will decline and will be more likely to complement it by accepting or demanding under-the-table payment.

- **Use of evidence and avoiding penalties can contribute to finding constructive policy steps to reducing corruption.** Since 2001, annual surveys have been conducted by the Mandatory Health Insurance Fund and WHO to track trends in under-the-table payments in health care facilities. The results of these surveys have been used in several ways. First, they documented that the reforms indeed worked to reduce under-the-table payment in health care facilities. Second, they helped refine the co-payment policy. Third, the results were presented to providers as a mirror of their performance and comparisons of provider performance were carried out. The use of evidence and the avoidance of penalizing mentality allowed shifting the discussion to a constructive level where policy options to reduce corruption could be openly explored.

While the health sector has achieved documented successes in improving governance, its achievements are fragile. Insufficient public funds start a ***vicious cycle of corruption***. When budget funds decline, physician salaries decline, their incentives to take and ask for informal payment increases, patients' financial burden increases now having to pay twice for services once officially and once unofficially, population perception of the reforms and the public sector deteriorates, this affects people's willingness to pay taxes, which deteriorates an already difficult fiscal situation and a results in a decline in tax revenues…

To stop this vicious cycle, the Government should protect the budget of those sectors that have taken significant steps towards reforms, towards transparency in governance, and towards reducing corruption. This would help send the signal in the wider public sector that difficult reforms are rewarded rather than penalized.

For more information about studies and figures cited in this Policy Brief, contact Melitta Jakab, WHO/DFID Health Policy Advisor. mjakab@elcat.kg