

Policy Brief #23

Review of Total Health Expenditures for 2006-2008 (based on the National Health Accounts)

For the time period from 2006 to 2008, the total health expenditures had grown from 7, 1 to 11, 8 billion KGS, which presented a nominal growth in more than 66%. As a result, health expenditures had grown from 6, 2% to 6, 4% accordingly as a share of GDP. It is worth mentioning that health expenditures composed the largest share of GDP– 6, 7% back in 2007.

In 2008, the share of the government financing (including the funds of the health insurance) was 2,4% of GDP in comparison with 2,6% in 2006, out – of – pocket payments composed 3, 4% in comparison with 3, 5% in 2000. As far as external financing is concern, it was 0, 6% to GDP, which is 0, 2% less than in 2007.

Table 1: Total Health Expenditures

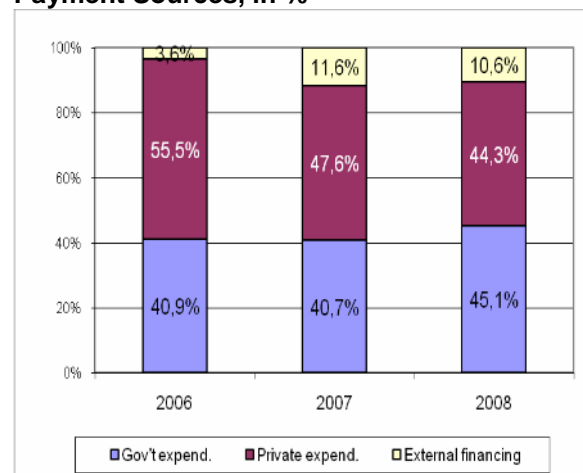
	2006	2007	2008
Total Health Expenditures (in million KGS)			
Government Budget	2 421, 0	2 966, 9	3 873, 0
MHIF	466, 9	704, 5	476, 8
Out – of - pocket	3 921, 9	4 695, 9	6 373, 6
External joint financing	252, 6	529, 7	409, 1
External parallel financing	N / A	519, 8	709, 0
Total	7 062, 4	9 416, 8	11 841, 6
Percentage breakdown of the total health expenditures			
Government Budget	34, 3%	31, 5%	32, 7%
MHIF	6, 6%	7, 5%	4, 0%
Out – of - pocket	55, 5%	49, 9%	53, 8%
External joint financing	3, 6 %	5, 6 %	3, 5 %
External parallel financing	N / A	5, 5 %	6, 0 %
Total	100, 0 %	100, 0 %	100, 0 %
A share of GDP			
Government Budget	2, 1 %	2, 1 %	2, 1 %
MHIF	0, 4 %	0, 5 %	0, 3 %
Out – of - pocket	3, 5 %	3, 4 %	3, 4 %
External joint financing	0, 2 %	0, 4 %	0, 2 %
External parallel financing	N / A	0, 4 %	0, 4 %
Total	6, 2 %	6, 7 %	6, 4 %

In terms of looking at health expenditures per capita, the total level of health expenditures had been increased from 1 379 KGS in 2006 up to 2 312,5 KGS in 2008. It ought to be remarked that

health expenditures in real terms have been reduced comparatively to 2007. This was stipulated by a high inflation rate 07, which was at the level of 24,5%.

Out-of-pocket expenses remain to be the largest share in the total health expenditures. By 2008 the share of out – of – pocket money was about 54% in comparison to 55, 5% in 2006. Reduction trend of out – of – pocket share is determined by a number of reasons: on the one hand, the level of total health expenditures had been increased at expense of external financing, which was about 10% of total health expenditures. On the other hand, in real terms these out – of – pocket expenses in the time period of 2000-2003 had been increasing at much faster pace (in average per 15,4% each year), than the government expenditures (in average per 4,3% each year). As a result, the share of out – of – pocket expenditures was increased up to 60, 4% of the total health expenditure. The growth of the government expenditures had been accelerated beginning with 2004 compared to the out – of – pocket expenses, and this trend continued until 2008 (about 12,6% of the annual growth compared to 9%). This resulted in downsizing of out – of – pocket expense share in the total health expenditures.

Figure 1: General Structure of Provider Payment Sources, in %



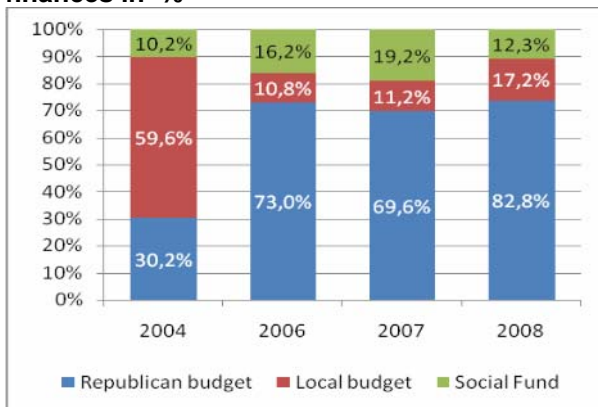
The smallest share of the health financing structure falls on financing from international organizations, which was 1 118 million KGS or 9, 4% of the total health budget in 2008. Furthermore, 409 million KGS (or 37%) have been integrated into the

government budget in the framework of implementation of the sector – wide approach.

Health expenditures per different sources

The government sources of financing are composed of the republican and local budgets, as well health insurance contributions. Their proportion was 83%, 17% and 12% accordingly to the total amount of the government expenditures in 2008. However, in 2004, the picture was slightly different. The major part of health revenues used to come from the local budgets, which composed 60%, whereas the republican budget used to provide only 30% of all funds.

Figure 2: The structure of the government finances in %



Such a significant change in the government finance structure was stipulated by a law “On Fundamental Principles of Financial and Economic Local Self – Government”, which was enacted in autumn 2003. In accordance to this law, the budget of the Kyrgyz Republic were moving from the 4 - tier system to 2 tiers system, composed from local self – government budget (ayil – ockmotu and municipal budgets) and the republican budget. These changes came into force in 2006, and in this connection all revenues, which used to go to the health system at the oblast level – moved to the republican budget, and in this connection the share of the republican budget was increased up to 73% from the total government expenditures. The only exception is Bishkek city, where they still have a local budget as one of the financing source.

Health expenditures breakdown per health financing organizations

The National Health Accounts classification system in the Kyrgyz Republic provides for three main categories of financing organizations: government organizations, non-governmental organizations and the rest of the world. The category of governmental organizations includes the Ministry of

Health of the Kyrgyz Republic, Mandatory Health Insurance Fund and other government ministries and agencies that have been providing health services to population. Non-governmental organizations imply households, which provide out – of – pocket payments for health services. International organizations include those donor organizations, which provide financial support to reforms implemented in the health sector.

Table 2.1: Breakdown of the total health expenditures per differed payers

Payment organizations	% of the total health expenditures		
	2006	2007	2008
The government sector, including ..	47,8 %	48,7 %	43,8 %
Non-governmental sector	52,2 %	45,8 %	50,2 %
The rest of the world	N / A	5,5 %	6,0 %
TOTAL	100,0 %	100,0 %	100,0 %

In the course of breaking down of funds per financing organizations, the structure of the total health expenditures had an important difference from the health expenditures in 2007 - the share of the government budget for the first time exceeded the non-governmental share of funds (49 % in comparison to 46 %) (Table 2.1). However, in 2008, one can observe a recovery of the previous years' tendency, when the share of out – of pocket expenditures was exceeding the government expense share (50 % and 44 % accordingly).

Table 2.2: Breakdown of the total health expenditures per different payers

Payment organization	A share % of the government sector		
	2006	2007	2008
Government sector , including	100,0 %	100,0 %	100,0 %
Ministry of Health	26,9 %	29,9 %	25,7 %
Mandatory Health Insurance Fund	68,3 %	65,2 %	69,5 %

About 70 % of the government funds are managed by the Mandatory Health Insurance Fund, which has been paying health care facilities of the primary and secondary levels. At the same time, the Ministry of Health has a little bit more than 25 % of the total government funds. Such a financing proportion is explained by the fact that the Mandatory Health Insurance Fund in the Kyrgyz Republic acts as the Single Payer and it performs a centralized payment for health services delivered by health care facilities under the State Benefit Package. So, the consolidated budget of the Health Benefit Package in 2008 was 3 923,6 million KGS, including 2 084, 6 KGS from the

republican budget and 835, 2 KGS from the Mandatory Health Insurance Fund.

It should be mentioned that the financing share of the non-governmental still remains quite high – 50 % and it presents a certain threat to the financial protection of population. Currently, the funds of the government budget cannot cover all the need to ensure sound functioning of the health system, in consequence of which the burden of financial expenses lies on the people of the country. Despite of the fact that the level and predictability of the government financing have been improving since 2003, ensuring of subsequent improvement of the government fund flows is critically important, and this is a fundamental condition for improvement of financial protection of people when they seek health care.

Health expenditures breakdown per providers

In 2008 – hospitals – for the first time ever - took the largest share (about 34 %) of health expenditures among other providers, whereas the previous years the major part of all expenditures belonged to a category ‘Retailers and other Providers of Medical supplies’ (for example pharmaceutical organizations). Their share went down from 38 % in 2006 to 31 % in 2008.

However, despite of the reduction in the share of the category ‘Retailers and other Providers of Medical supplies’, the share of drug expenditures remains to be very high. And the main burden fall on households, which spend 60% of their total health costs for drugs. Major part of these expenses does not take place in health care facilities; households rather buy drugs individually at the outpatient level.

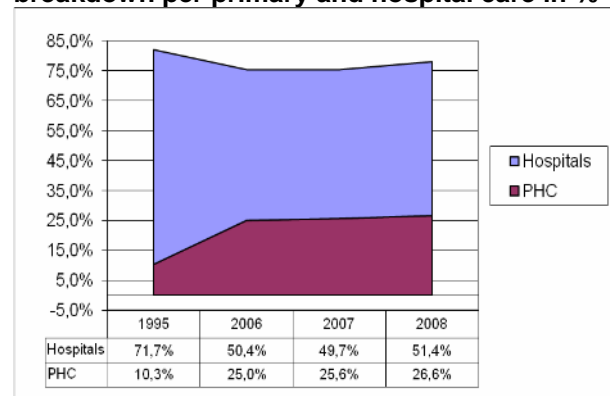
Health expenditures breakdown per different functions

The existing health system delivers health care services at different levels, which include: primary health care, outpatient – diagnostic services, hospital (inpatient care), prevention and public health, education and research, etc. More than a half of available finances have been spent on therapeutic services. So back in 2008, this category composed 55 % and it got increased per 4 percentage points in comparison to 2006.

And in the structure of therapeutic care, the share of the government financing of outpatient care continue to increase, whereas the government financing of hospitals mainly has a reduction tendency. Since 2000 the share of hospital care

financing went down from 74 % to 51 % in 2008. In the meantime the share of expenses for outpatient care has got increased from 10 % in 2000 up to 26, 6 % in 2008 (Figure 3). Health reform program MANAS, including reforming of provider payment methods and introduction of the Single Payer system provided a major impact on these tendencies. So if initially the input – based payment system used to provide incentives for hospitals to increase a number of beds in hospitals and length of stay, then the transition to the output – based payment methods had shifted the focus to efficiency gains and reduction of fixed costs. Besides, the provider payment reforms in the health system implied to shift the emphasis from a more expensive hospital health care to more accessible outpatient care. This shift, in its turn, provides a direct impact on accessibility of health services for main categories of the population of our country and reduces the financial burden.

Figure 3: Government health expenditures breakdown per primary and hospital care in %



Another key point is that upward trends remained in public health expenditures in 2008; its share was 4, 3% in comparison to 2, 5% in 2006 and 3, 3% in 2007. It is important to maintain this trend in the future, since our government has a goal to strengthen the role of public health.

Conclusions

Analysis of the National Health Accounts results has shown that there are a number of positive tendencies in the health provider payment system:

- Upward trend of health sector expenditures goes on, both in nominal and real terms. And the real growth of expenditures is primarily ensured by the government financing.
- Downward trend of out – of – pocket expenses for health services did not go on in 2008.
- In 2008 – at least a quarter of all funds donated by donor organizations were spent in drugs.

- In 2008 - the share of public health financing continued to grow, which illustrates the increased attention to problems in this field.

The most important challenges in the health sector financing include the following:

- Despite of the fact that in 2008 there was a nominal growth of the total health expenditures, in real terms – there was a reduction of financing per capita. This situation can be explained by a high inflation rate in 2008.
- The level of out – of pocket expenditures still remains to be quite high in the Kyrgyz Republic. As a result the people of Kyrgyzstan are not protected from financial risks when they seek health care.
- Out- of - pocket expenditures for drugs at the outpatient level are still significantly exceeding the government expenses and present the main financial burden for citizens of the country.

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