**Pan American Health Organization/
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Concept Paper

ON

**Basic Health Economic Concepts that Constitute
an Economic Approach to Health Sector Reform
in the Eastern Caribbean and Barbados**

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1. INTRODUCTION

Health reform is a strategy for making health systems more equitable, efficient, and effective in response to the health needs of the population of the Eastern Caribbean and Barbados, recognising the efforts undertaken by countries in health reform and the bilateral and multi-lateral co-operation provided, the need for co-ordination for external support and respect for national autonomy, and the importance of exchanging experiences and report on the progress and problems of the national processes of health reform.

Economic pressure for health reform is being felt in the Eastern Caribbean and Barbados, albeit in different degrees. These countries are struggling with the dual objectives of achieving widespread and equitable coverage of health services while providing health care more efficiently under tight budget constraints. The extent of additional financial support available from governments for health services is unlikely to expand.

A comparison of different countries suggests that the priority given to health services rises as a country becomes richer. Poorer countries typically spend around 3-4% of national income on health services, whereas the usual figure for richer countries is 8-10%. There is no intrinsic reason why higher levels of spending should not occur in poorer countries, but other priorities are often seen as more pressing such as development of the basic infrastructure.

Although there is considerable public pressure for higher spending on health services, it does not necessarily lead to great gains in terms of the main health policy goals of longer life and better health. Some demands are induced by suppliers of care and by those who have an interest in the sale of pharmaceuticals and medical technology, and there is often little evidence that these should be priorities. It is clear that many countries have overinvested in medical technology that does little to achieve health policy goals.

> "What we need is help with implementation" is a phase stated by many policy-makers."

There is scope for all governments to enhance resource allocation and management in order to enhance sectoral efficiency and the productivity of health resources.

Policymakers are seeking tools to get better value for the expenses already being incurred, to determine whether additional resources for health are needed, and, if so, how and where they should be obtained. Feedback from policy-makers in the Eastern Caribbean and Barbados is that they want assistance in planning and implementing reforms than with research to help select reforms. To advance health reform in the Eastern

Caribbean and Barbados, there is also the need to identify areas of synergistic regional co-operation which take into account different partners than can contribute to the attainment of common objectives in the area.

2. PURPOSE OF THIS CONCEPT PAPER

Policy-makers in the health sector face a steady stream of difficult decisions regarding how best to design their health care system. It is therefore important for policy-makers to be able to assess which approaches to health financing reform make the most sense in their setting and will best allow them to achieve the goals set for their system.

The purpose of this paper is to ensure that policy-makers speak a "common language" about health financing reform in the Eastern Caribbean and Barbados and sustainable financing options. Basic health economic concepts will be presented based on the premise that a solid understanding of health economic concepts is a necessary, though not sufficient, condition for comprehensive analysis of health reform options.

3. HEALTH ECONOMIC CONCEPTS
Financing, Funding, Remuneration

Health care systems are generally pluralistic; a number of different sources of finance, payment mechanisms, purchasers and providers coexist. The challenge facing governments in the Eastern Caribbean and Barbados is how to manage and co-ordinate these various structures in order to achieve harmony in the system as a whole.

The term "financing" is sometimes used to refer to funding and remuneration although they are analytically distinct from each other. The distinctions between financing, funding and remuneration can be blurred but in most health systems, there is a separation between these components.

3.1 Financing

Financing refers to the sources of expenditure for the health system as a whole.

The following is a hypothetical policy scenario that illustrates pertaining to the concept of "financing".

Hypothetical Policy Scenario #1

Cabinet has decided that one of the initiatives it will undertake is a national network of primary health care polyclinics but the issue of financing was not resolved. The Minister of Health has requested that a paper be prepared making recommendations on the sources of funds, within both the public and private sectors, that can be used to raise the revenue required to support the network.

At the country level, health financing includes financing for personal care as well as public health interventions that have the characteristics of public goods.

There are four main traditional mechanisms of financing namely:

- direct taxes (e.g. personal income tax, corporate tax) or indirect taxes (e.g. sales tax, excise duties);
- user fees;
- private insurance; and,
- National Health Insurance.

All four of these traditional financing mechanisms are in operation in varying degrees in the Eastern Caribbean and Barbados. No one health financing option may meet the requirements and circumstances of all Eastern Caribbean countries and Barbados. Health financing should be an integrated strategy based on prior assessment of advantages and disadvantages of each health financing option in fostering pursued objectives. A national health financing strategy should focus on funding the provision of personal health services as well as public health interventions.

These mechanisms have the potential to increase financial resources. Some modifications are, however, required if they are to make a positive contribution to a sound health financing strategy.

Eastern Caribbean countries and Barbados currently devote a larger share of their public sector budgets to health care than most other countries in the world, including highly industrialised nations. On average low and middle income countries devote 5% of public expenditure to health compared with 11% in industrialised countries. Eastern Caribbean countries and Barbados devote from just under 13% to over 17% of their public budgets to health. User fees are non-existent or nominal in the Eastern Caribbean and Barbados and private insurance rarely reimburses the government sector.

There is a heavy subsidisation of health services by government funding from general government revenues normally covering over 95% of the costs of providing health services to people who receives services from the Ministries of Health. Visiting tourists are usually subsidised at the same levels as citizens.

Changes in the last twenty years that have taken place in health care financing in the Eastern Caribbean and Barbados were in response to the need to close the gap left by reduced public resources in the social sectors. Despite the high level of public resources dedicated to health services, the health sector is perceived as being under-funded. Although the number of health facilities in the health delivery system is generally adequate – or even excessive – governments cannot afford to adequately maintain, equip, supply and staff facilities.

Complementary mechanisms refer to any form of subsidy to reduce financial barriers to accessing health services. These mechanisms stress policies that compensate for the unwanted social effects generated by traditional mechanisms.

3.2. Funding

Funding refers to the allocation of resources within the health system usually through payments to public or private institutions. Therefore, the term "funding" involves allocating to health care organisation monies that have already been raised.

The following is a hypothetical policy scenario that illustrates pertaining to the concept of "funding".

> *Hypothetical Policy Scenario #2*
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> *Cabinet has decided to fund the national network of primary health care polyclinics using general tax revenue. The Minister of Health has requested that a paper be prepared on how the centres are to be funded.*

Examples of funding mechanisms include prospective payments based on expected case-mix for hospitals, global budgets for public health departments, negotiated payments to a large, multi-speciality group of physicians, and payment of per-capital grants to regional or district health authorities to cover all but the most advanced tertiary care.

When looking at the epidemiological situation in the Eastern Caribbean and Barbados, one sees that due to the changing pattern of diseases, infectious diseases are no longer the major causes of morbidity and

mortality. Rather, the major causes have shifted to the chronic non-communicable diseases (CNCD) whose major contributory factors are lifestyle related. This makes it imperative that programs are developed in the Eastern Caribbean and Barbados based on the strategies of Health Promotion, whereby interventions occur in the earliest pre-pathogenic stages.

In examining factors responsible for the top five causes of death for the Eastern Caribbean and Barbados, one finds health care organisation is attributable for approximately 10% of the contribution toward premature mortality, environment for 19%, human biology for 21% and lifestyles for 50%. However when the direction of health sector spending is examined, one finds the largest amount goes to health care organisation, environmental health services and then lifestyle programming.

3.3. Remuneration

Remuneration refers to the actual compensation to individuals who are employed in the health system.

The following is a hypothetical policy scenario that illustrates pertaining to the concept of "remuneration".

Hypothetical Policy Scenario #3

Cabinet has decided to fund the national network of primary health care polyclinics using general tax revenue. The Minister of Health has requested that a paper be prepared on how the providers who work in the centres are to be remunerated.

The payment of the individuals empowered in these organisations, and in the firms that do business with term, is termed "remuneration." Individuals may be remunerated in several ways including salary, hourly wages, fee-for-service, capitation, sessional payment, or contracts including combinations of these mechanisms perhaps with additional incentives included in the contract.

The use of public facilities for private practice directly effects the efficient operation of the referral system and in particular the poorer clients from the district or community health services. There is the need in the Eastern Caribbean and Barbados to establish clear policies if regulations need to be developed to reduce public subsidy to private coverage. Modifications to provider payment mechanisms need to be introduced. More and more, countries are now looking to some form of separating purchaser and provider functions to replace the traditional public service 'command

structures' in which decisions on the running of services are made by a central ministry of health and funding is provided through government transfers.

4. SCENERIOS

4.1 Scenario #1 – Establishment of a Sustainable Financial Base of the Health Sector in the Eastern Caribbean and Barbados

This scenario will be reflect a combination of modifications to health financing, funding and remuneration. Attached is a draft five-year program of activities for the Eastern Caribbean and Barbados to establish a sustainable financial base of the health sector in the Eastern Caribbean and to define and implement a minimum package of health services for the Eastern Caribbean and Barbados. The purpose of this programme of action is to provide regional support to national processes of health reform in these areas.

The overall components of the programme are to:

- establish a sustainable financial base of the health sector in the Eastern Caribbean and Barbados, and
- define and implement a minimum package of health services for the Eastern Caribbean and Barbados.

In order to achieve these components, the following activities have been envisaged and tasks under each activity are outlined in the attached chart:

- Preparation and dissemination of a concept paper on regional health financing, shared provision of services, and regional health insurance for the Eastern Caribbean and Barbados
- Improvements to health financing models
- Development of minimum package of health services (leading to shared services)
- Modifications to provider payment mechanisms
- Skills development in health economic analyses
- Improvements to health financial management systems

Financial management systems and financial analytical methodologies for the sector and the interrelation with macro-economic variables need to be strengthened. There is the need to establish a policy/legislative/regulatory framework as an integral part of health financing reform. One needs to know the services needed, their cost, willingness of the public to pay for these services, and revenue potential. Policies, strategies and mechanisms need to be developed for the introduction of cost containment measures and health financial

management especially at the decentralised levels. There is the need for access to information and the development of financial management systems.

Every Eastern Caribbean country and Barbados is involved in health reform. However, not every country is involved in health financing components of health reform. It is not realistic to expect that of every country. Countries in the Eastern Caribbean and Barbados may be at a different state of readiness to initiate health reform activities under specific components. Each country must develop their own health reform plan to guide health and development in their country.

However, many countries are reforming their health systems today without fully benefiting from knowledge gained through the sharing the experiences of neighbouring countries in implementing similar activities in health reform. It is unrealistic to expect all small island states to plan for health reform in their country in isolation from surrounding neighbouring countries in the Eastern Caribbean and Barbados as the small island states do not have the resources (financial as well as institutional capacity) to develop activities under the various health reform components without sharing the experiences – and often shared health services - of other small island states.

Reform is also to be achieved through the adoption of health promotion strategies. Health promotion strategies include:

- Formulating healthy public policy
- Reorienting health services
- Empowering communities to achieve well-being
- Creating supportive environments
- Developing/increasing personal health skills
- Building alliances with special emphasis on the media

Cross-cutting programming elements include institutional strengthening, information system, human resource development, research, social communication and community participation.

Considering both the complexity and specificity of health reform processes, this Programme of Action is mainly oriented to foster regional or intercountry activities instead of particular national activities. This regional approach, centred around the development of regional guidelines, concept papers, and technical papers is viewed as the most appropriate means to provide support to countries to carry out situational assessments as well as to design, implement and monitor reform processes in health financing.

4.2. Scenario #2 – National Health Insurance with Access to Shared Services in the Caribbean

Characteristics of a National Health Insurance scheme include the definition of a defined minimum package of health services – some of which will be offered in country and others overseas. This defined minimum package of health services must apply to all citizens commensurate to the financial resources available including development of the mechanisms to enforce its application. Generally, all Eastern Caribbean countries and Barbados have a basic package; however, its specifics depend on the country profile.

Since the right to health and universal access to health services are deeply ingrained social values, appropriate ways would have to be found to involve key stakeholders in the research, discussion and development of the package. Some values and criteria to be applied in determining the minimum package includes the technical efficacy of the intervention, cost-effectiveness, impact of the disease/condition on society, equity, consistency with integrated care systems and community preferences. The differential impacts on equity made by different modalities for health care financing point to the urgency for detecting and defining the effects and the groups affected with relation to the development of the minimum package. The package should not be seen as fixed in time or final but as one that is constantly evolving as new priorities are taken on board.

> "Self-reliance in health is difficult for small countries to achieve," concluded a Caribbean Co-operation in Health report on the Eastern Caribbean States, "but collectively much can be done. The design and establishment of common services and the functioning of a network of institutions can lead to a form of regional health services. Promotion of inter country action …. Is fundamental for improving the potential of the Caribbean countries to adequately address their health situation."
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> (UNICEF/PAHO/CARICOM, 1986).

While each Eastern Caribbean country and Barbados have been making every effort to provide for the health needs of its own population, the realities of different size and endowments have always prompted an interest in collaboration across the various national boundaries. It does not make economic sense for each individual country in the Eastern Caribbean and Barbados to provide the full complement of requirements under the minimum package of health services. Once the minimum package of health services is defined, mechanisms for implementation of national and shared services must be developed and become operational. Existing initiatives needed to be strengthened and formalised.

Access cannot be limited to *national boundaries* with populations ranging between 10,000 and 250,000 in the Eastern Caribbean and Barbados. In these countries, individuals have already been responding to the existing limits in the availability and quality of their national health services by seeking care elsewhere in the Caribbean or sometimes even outside of the region. What this means is that the services to be made available overseas cannot be seen as extras. They must constitute part and parcel of the definition of a policy that is aimed at maximising the health status of the populations within the resource constraints of the region.

Shared health services implies that each Eastern Caribbean country and Barbados will have to ensure that its health services meet a certain specified standard and training will be needed. These standards will assist to ensure that nationals who select the option of accessing care in another Eastern Caribbean country will receive comparable quality.

4.3. Scenario #3 – Regional Health Insurance Scenario

Eastern Caribbean Governments and Barbados would finance health services through contributions to a regional health fund.

An individual making a contribution to the regional health insurance plan would be able to assess care directly anywhere in the Eastern Caribbean and Barbados. The case may arise where an individual may wish to assess services in the Eastern Caribbean and Barbados that are nationally available but with which the individual is simply not satisfied.

The most common basis for contributions is the payroll, with contributions from both employer and employee. Contributions are based on ability to pay, and access to services depends on needs. These contributions would be made into an Eastern Caribbean/Barbados health fund independent of individual governments but working within a tight framework of regulations.

The minimum package of services covered under the regional health insurance mechanism would be defined on a regional basis rather than on a national basis. It would be based on the epidemiological profile for the Eastern Caribbean and Barbados as a whole rather than on the specific epidemiological profile of each Eastern Caribbean country or Barbados.

<u>This mechanism would be a substitute for a national health insurance program</u> and could result in a situation where quality care will be concentrated in a few Centres of Excellence in the Eastern Caribbean rather than on the local provision of quality services.

At this point in time, scenario #3 is not being explored as an option for the Eastern Caribbean and Barbados.

5. CONDITIONS UNDER WHICH SPECIFIC REFORM MEASURES WILL GENERATE IMPROVEMENTS

There is the need to identify conditions under which specific reform measures will generate improvements in efficiency, equity, health status and consumer satisfaction. Health financing (i.e. financing, funding and remuneration) methods can only be successfully introduced if the conditions are suitable.

The first condition is the policy itself. For example, retention of some portion of the revenue collected from patient fees for use by the health facility is a necessary policy to ensure that user charges lead to improvements in service quality and access to quality care.

The second condition relates to the structure of the health sector and the role of the Ministry of Health. It includes such elements as procedures for accountability, the extent to which managerial decisions are decentralised, the magnitude of the private health sector and the types of service provided therein, etc.

The third condition is managerial capacity. This is concerned with the individuals and institutions responsible for leadership, planning and evaluation, decision-making and regulation of the sector. Managerial capacity provides the link between defined policies and their implementation. It is thus a critical condition for the success of financial and organisational reforms.

A final category of conditions deals with factors that are largely outside the influence of the health sector. These “macrocontextual” factors include a country’s macroeconomic performance, infrastructural development, educational levels, and cultural norms.

Changes in the way health care is financed can have far-reaching consequences. By altering the structure of incentives, a change in the method of financing care or paying care providers may change the type and quality of relations among providers, and between providers and consumers. The affordability of care and, in consequence, the health status of various population groups may be changed. The financing method may affect the growth of health care costs, the location and type of services produced, and the number and type of staff employed. Clearly, there is a need to understand how a country’s health policy objectives may be affected by changes in financing.

Health financing mechanisms must clearly be viewed as a policy tool rather than an end in itself. This means that the goals of health policy must be clear, so that the new funding arrangements can be seen to help to meet them.

GLOSSARY

Capitation:	A payment mechanism whereby an organisation receives a fixed, pre-specified amount of money per time period (e.g. month, year) for each individual for which it is responsible for meeting defined health needs (e.g. primary care, primary and secondary care).
Cost-sharing:	A provision of health insurance or third-party payment that requires the individual who is covered to pay part of the cost of medical care received. This is distinct from the payment of a health insurance premium, contribution, or tax, which is paid whether medical care is received or not. Cost sharing may be in the form of deductibles, co-insurance or co-payments.
Efficiency:	Cost-effectiveness efficiency occurs when inputs are combined so as to minimise the cost of any given output. The requirement may also be stated such that output is maximised for a given cost.
Equity:	Fairness in the allocation of resources or treatments among different individuals or groups.
Fee-for-service:	Refers to a payment mechanism whereby a provider or health care organisation receives a payment each time a reimbursable services is provided (e.g. office visit, surgical procedure, diagnostic test).
Financing:	Raising revenue to pay for a good or service.
Funding:	Providing health care organisations with the financial resources required to carry

out a general range of health-related activities.

Global budget: Refers to a payment mechanism whereby an organisation, group of providers, or provider receives a total budget for a defined period of time.

Population-based funding schemes: A funding scheme whereby money is nominally attached to beneficiaries so that in a sense, the funds flow only to wherever the beneficiaries are. Capitation is an example of a population-based funding scheme.

Provider-based funding schemes: A type of funding scheme whereby money flows directly to providers. Fee-for-service and global budget with salary are examples of provider-based schemes.

Remuneration: Refers to the activity of compensating health professionals for their time and effort in providing care.

Risk pooling: Occurs when transactors each facing possible large losses agree to contribute a small premium payment to a common pool, to be used to compensate whichever to them actually suffers the loss. Contributions must cover losses plus administration costs.

Salary: A payment mechanism whereby a health professional receives a pre-specified sum of money to carry out specified responsibilities for an organisation, usually being available to provide needed health care services at specified times (and places)

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