Improving health system efficiency and strengthening Primary Health Care (PHC)

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Synthesis of Asian case studies (China and Korea)
Improving efficiency in health systems

Efficiency problem:
• What, Why, Causes, Consequences, Reform and Effects/Implications.

Resource waste (20%-40% of all spending is wasted):
• Identify the areas for resource waste, their causes and eliminate them to mitigate their negative effects.

Efficient use of resources:
• Allocate resources to interventions producing the highest benefits, improve the relationship between input and output and resource management (administration).

Efficiency gains (measurement):
• More money for health to do more.
• More health for the money (value for money).
China: Zero medicine pricing policy.

- Medicine expenditure accounted for 40%-50% of OP and IP services.
- **Why?** Hospitals and clinics generated revenues and “saved” government budgets.
- **Consequences:**
  - Equity, access, household direct payment.
- **Main cause:** Perverse economic incentives
- **Implications:** Irrational use of medicine, over consumption and over spending (**resource waste/efficiency**).
- The new pricing and compensation mechanism eliminated the perverse incentives, improved availability, access and use of **essential medicine** at primary level.
Korea: Merger of HI schemes

Administration of resources (Single versus multiple insurance schemes).

**Why?** Designed by the government, each scheme covered well defined population group, the same statutory benefit package, and uniform payment system.

**Consequences:** Fiscal insolvency.

**Main cause:** Limited risk pool (too small in size).

**Implications:** Costly to administer and provide the statutory benefit and unequal financial burden on households.

The merge reduced administrative cost, equalized contribution payments. Pooled revenue and purchasing enabled to expand health insurance benefit to preventive services.
Common features

• Financial constraint
  – Increased demand, cost escalation, expenditure growth, and limited supply.
  – Fiscal insolvency and sustainability.

• Role of public/pooled financing
  – Low government participation in health financing.
  – Decreased government subsidy.

• Policy concerns / Objectives
  – Equity, financial protection and efficiency.

• Reform
  – Remove mark-ups and introduce new reimbursement mechanism from public source.
  – Increase equity and stabilize financial status.
Main lessons / messages

• Efficiency is an concern for every health system regardless of their income.
• Improving efficiency is a multi-dimensional, cross-cutting and progressive process.
• It refers to each health system component as long as it deals with mobilization, allocation and use of available resources.
• Efficiency alone may not necessarily lead to health system and financing reforms. But it is an important objective.
• Adequate level of prepaid and pooled fund is required (management and organization of health services, provider and consumer behaviors).