

# UKRAINE: REVIEW OF HEALTH FINANCING REFORMS 2016–2019

WHO–World Bank Joint Report

## Summary







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## **Summary**

# Abstract

In 2015, the Government of Ukraine initiated transformative reforms of its health system to improve population health outcomes and ensure financial protection from excessive out-of-pocket payments. This was to be achieved through increasing efficiency, modernizing the obsolete service delivery system and improving access to better quality of care. This report is based on a joint WHO–World Bank review carried out in April–July 2019 looking at progress implementing health financing reforms in Ukraine towards these objectives. It concludes that the overall design of Ukraine’s health financing reforms is in line with international good practices to improve access, quality and efficiency of health services. Implementation has successfully moved forward, the National Health Service of Ukraine has been established as a critical change agent and tangible benefits are beginning to emerge in primary health care. However, serious challenges are on the horizon. Ukraine’s overall macro-fiscal environment remains difficult. As a result, efficiency gains, particularly via hospital restructuring, will be key to demonstrate results from the reforms. Ensuring overall stability of the health budget envelope and prioritizing public health (health promotion and disease prevention) and primary health care will be essential to ensure improved frontline services. Local governments have an important role to play as facility owners and financing agents, but further policy dialogue is needed to align decentralized roles and national health policy priorities. Building distributed ownership for the reforms among key stakeholders including local governments, providers and the population is important for sustainability. With consistent implementation and careful policy dialogue, these challenges can be overcome and the reforms can expect to yield tangible benefits in terms of improved health outcomes and reduced financial burden for the population in coming years.

## Keywords

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# SUMMARY OF KEY POLICY MESSAGES AND POLICY CONSIDERATIONS

In 2015, the Government of Ukraine initiated transformative reforms of its health system with the goal to improve health outcomes of the population and ensure financial protection from excessive out-of-pocket payments through increasing efficiency, modernizing the obsolete service delivery system and improving access to better quality of care. The overarching strategy consisted of focusing on health financing reforms first to catalyse transformation in service delivery (both individual and population), incentivize results and outcomes, and use information solutions as accelerators. Following the development and cabinet approval of the strategy, parliament passed the new health financing Law on “Government Financial Guarantees of Health Care Services”. The National Health Service of Ukraine was established to begin strategic purchasing with health care providers for services stipulated in the benefit package.

A joint WHO–World Bank review was carried out in April–July 2019 with a joint mission to Ukraine from 20 to 24 May 2019 to take stock of and review progress implementing health financing reforms since 2016. The joint review aimed to document the impact of the reforms on the stated objectives (access, quality, efficiency and financial burden), identify good practices from an international perspective, highlight future challenges and provide policy recommendations on how to overcome them.

The joint review covered the following six technical areas: (i) governance challenges in health financing; (ii) assessment of the evolution of fiscal space, revenue collection and pooling arrangements; (iii) evaluation of the introduction of strategic purchasing and catalysing service delivery transformation in primary health care including using digital solutions to accelerate progress; (iv) review of options to gear up for strategic purchasing beyond primary health care with outpatient specialist clinics and hospitals; (v) progress in developing an explicit benefit package both from a process and content perspective; and (vi) identification of lessons learned regarding the reform process so far for the next generation of reformers.

Based on the results of the review, the joint team of WHO and the World Bank have made the following eleven policy recommendations. Detailed findings of the review, covering each of the six technical areas outlined above, are available in a separate report.

Message  
#1

The overall design of Ukraine's health financing reforms is in line with international good practices to improve access, quality and efficiency of health services.

WHO and the World Bank support the basic model introduced in Ukraine. The essence of this model is a single purchasing agency, the National Health Service of Ukraine (NHSU), acting as a state insurer for an explicit benefit package, funded from general tax financing, making service contracts with public and private providers. To maximize value (health, financial protection, access, quality) for available resources, the NHSU uses a range of strategic purchasing, contracting and incentive mechanisms to influence provider behaviour. This is a complete break from the past of passive historical line item budgets focusing on inputs, such as building and staffing, and represents a new focus on people's needs and services. This new approach is expected to trigger reconfiguration of the service delivery network and service offering. As with any reform, it is normal to encounter challenges during implementation, and such challenges should not be mistaken for design flaws.

***Policy consideration:*** Provide political support for continued implementation of the fundamental shift to the single payer system with strategic purchasing as per the Law on "Government Financial Guarantees of Health Care Services" (Law 2168) to demonstrate tangible benefits to the population in coming years. Emergent challenges are normal for such large-scale and comprehensive system transformation and need to be adjusted during implementation without compromising the basic design architecture of the reform.

Message  
#2

Health financing reforms are well-aligned with Ukraine's overall development objectives and if implemented consistently should also yield dividends in terms of improved economic outcomes and ensuring fiscal discipline.

General government revenue financing under current reforms is good from an economic perspective considering Ukraine's overarching development goals of job creation and formalization of economic activity. In addition, such a financing system avoids fragmentation and ensures sustainability. Ukraine avoided the pitfalls of payroll tax-based financing, which increases labour costs and, thus, provides disincentives to formal employment. The separation of purchaser-provider functions, the establishment of the NHSU as a single purchaser, close-ended prioritized benefits and payment systems provide opportunities to enhance efficiency and accountability to maximize the impact of public funds. Due to the explicit definition of what is covered by the state, this design also allows for the development of voluntary health insurance and the growth of private sector participation in service delivery.

***Policy consideration:*** Continue with the current model of revenue generation and pooling, with general tax-financed revenue base for the health sector pooled in the NHSU, the single purchaser of health services in the benefit package from both public and private providers to maximize the impact of public funds. This approach is well aligned with the existing economic and labour market conditions in Ukraine.



Message  
#3

Implementation of health financing reforms has successfully moved forward and its continuation can begin to yield tangible benefits for the population in the coming years.

Getting health system reform off the ground and overcoming inertia has been a monumental challenge in many countries including in Ukraine. There are many examples of well sequenced and successfully implemented policies including high-level approval of the health financing concept, Law 2168 passed by parliament, the establishment, staffing and capacity development of the NHSU, conversion of primary health care (PHC) providers into autonomous entities, introduction of strategic purchasing and new incentives for PHC providers, development of the Accessible Medicines Programme and contracting of pharmacies, development of new payment mechanisms for hospitals, beginning the conversion of hospitals into autonomous state enterprises and gearing up for hospital contracting. This progress reflects significant investment and work over the past three years. Now that the reforms have begun to move forward, slowing down or changing course would reverse investments made in the past three years and would require substantial additional time before reform impact may materialize.

***Policy consideration:*** Continue implementation to demonstrate tangible benefits to the population in terms of improved coverage and services. In particular, passing the 2020 budget law by parliament with the list of state-guaranteed health services, including secondary and tertiary health care services will enable uninterrupted continuation of the reforms.



Message  
#4

One key reason for successful implementation of reforms to date has been a strong political commitment and good interagency relationships between the Cabinet of Ministers, Ministry of Health, NHSU and Ministry of Finance.

The Ministry of Health has played and will play a critical role in formulation of health financing policy, and it is essential to continue to develop capacities in the Ministry of Health in this area for policy coherence. In addition, contractual mechanisms alone have proven insufficient in most countries to change service delivery configuration and service quality. Thus, core Ministry of Health functions in the area of service delivery stewardship, regulation, provider performance monitoring and establishing a range of quality improvement processes will be essential. Similarly, the role of the Ministry of Finance has been exemplary in providing support to the health financing reforms, engaging in a productive dialogue about priority setting and pushing for continued efficiency gains. Joint leadership from the Ministry of Health, NHSU and Ministry of Finance is critical to attain high performance, and it is important to continue to develop and deploy health and finance expertise across the institutions.

***Policy consideration:*** *Political commitment and good interagency relationship is the basic foundation of the future health system, and the close early working relationship between the agencies is a strength to preserve and further invest in. The government should continue to develop capacities and mechanisms to foster a shared understanding of priority objectives, approaches and solutions. This requires simultaneous investment into capacity and institution building for the Ministry of Health and the NHSU and joint approach to large-scale system issues such as reconfiguration of service delivery infrastructure, provider performance monitoring and introduction of quality improvement mechanisms. Similarly, it is important to strengthen the emerging priority-setting approach in the annual budget negotiation process by investing in capacities at the Ministry of Health, the NHSU and Ministry of Finance.*



Message  
#5

The NHSU is now a critical change agent in the system, and continued institutional and capacity development will be necessary in order to enable it to play a key role in furthering Ukraine's health system transformation.

Law 2168 provides for relatively clear functions with Ministry of Health policy development, and the NHSU as executing agent. The NHSU has an appropriate organizational structure and began developing its core functions in strategic purchasing; a next generation challenge is the establishment of regional branches to build closer relationships with local governments, providers and patients. Basic provisions of external accountability in the health financing law are appropriate. The NHSU published its first annual report, and key indicators of performance are available online. This service and output orientation is a strength to be built upon. Further accountability instruments need to be put in place through operationalizing the envisioned Public Control Council once the NHSU purchasing role for the benefits package (i.e. the medical guarantees programme) is implemented in a coordinated manner with the Cabinet of Ministers oversight. Parallel to external accountability, another next generation challenge is to develop a system of internal controls at all levels of the system.

***Policy consideration:*** Continue to invest in institution and capacity building for the NHSU through capacity building in strategic purchasing and contracting of health care providers, further development of its organizational structure with regional branches, continue implementing the envisioned external accountability instruments and develop a system of internal controls (e.g. integrity violations and quality control).



## Message

### #6

Ukraine's overall macro-fiscal environment remains challenging. As a result, efficiency gains will be key to demonstrate results from the reforms. Hospital restructuring is critical to the overall health reform and for the efficiency agenda in particular.

Tight fiscal space will characterize the coming years of reforms. To demonstrate tangible reform impact to the population, public funds need to be better used, and achieving efficiency gains is critical. The most significant source of efficiency gains is in restructuring the hospital sector. Ukraine cannot afford to maintain hospitals with low utilization rates and low performance. It is both safer and more efficient to concentrate resources in fewer but better hospitals and to strengthen PHC. Implementing hospital restructuring requires significant political consensus, support and implementation stamina. A range of instruments are required for this beyond changes in contracting and incentives: master planning, licensing instruments, explicit allocation of capital expenditures and local change management support. It is important for this to be an inclusive process from the design to the implementation phase led by the Ministry of Health with the participation of local governments, medical professionals and community representatives. In addition, it will be important to realize efficiency gains from other sources beyond hospital restructuring: e.g., from rational use of medicines, by reducing avoidable hospitalizations and ensuring that the right interventions (low cost, high impact) are done in the right way (without waste) in the right settings (at the most appropriate system level).

***Policy consideration:*** Begin to implement policies triggering efficiency gains with particular attention to hospital restructuring. The Ministry of Finance and Ministry of Health should ensure that a range of efficiency enhancing policies are explicitly presented and deliberated during the annual budget process and government support is provided to their implementation. The Cabinet of Ministers and regional administrations' overarching support to the hospital reform will be essential to accomplish the required changes.

Message  
#7

Ensuring overall stability of the health budget envelope will be key for continued implementation of health system reforms to safeguard resources from efficiency gains and translate them into better quality coverage and services.

As systemic reforms begin to generate savings, it is important that these are reinvested into the health sector through better services – for example greater availability of medicines, diagnostics, laboratories and service conditions. Visible improvement in services will help to build support for subsequent rounds of structural reforms and political support among the population. The precondition to achieve this virtuous cycle is a stable and non-declining budget envelope. If the budget envelope declines while efficiency enhancing structural reforms take place, these savings will de facto be taken outside the health sector. As a result, the same coverage levels, financial burden and service standards will continue as of today with diminished enthusiasm for further reforms and disillusioned population.

***Policy consideration:*** Relatively high inflation rates will erode the purchasing power of outlays. The Ministry of Finance should ensure that per capita expenditures in real terms are maintained to enable predictability of financing and facilitate realizing improvements in efficiency. Any achieved efficiency gains should be reinvested within the health sector to support priority activities. Additional budgetary allocations for health should be correlated with economic growth and fiscal conditions.



Message  
#8

Financing and prioritization for public health (health promotion and disease prevention) and PHC need to be protected within the budget envelope so that hospital reforms do not take the focus away from financing of frontline services.

Tight fiscal space will require more careful setting of priorities within the health sector budget reflecting policy priorities. Spending on PHC has increased substantially reflecting efforts to strengthen frontline services. Integration of hospital services should be phased in a manner commensurate with budget resources such that it does not jeopardize these priorities. The process of drafting and dialoguing around the annual budget law will provide an opportunity for explicit priority setting within the fiscal envelope. As required by Law 2168, a health benefit package (health services, medicines and medical goods) needs to be defined and included in the budget from 2020. The government has already defined priority conditions and services, including prenatal care and delivery; noncommunicable diseases (asthma, chronic obstructive pulmonary disease, ischaemic heart disease, type 2 diabetes, and cancer); and communicable diseases (vaccine-preventable diseases; HIV, tuberculosis, and hepatitis B and C). This is based on detailed criteria (health need, cost-effectiveness and efficacy of services, protection from catastrophic expenditures, equity of access and population preferences). This package needs to be approved as part of the 2020 budget law and annually going forward, and will play an important role in improving the effectiveness of health care at affordable fiscal cost.

***Policy consideration:*** Approve the 2020 budget law with the list of medical guarantees, including secondary and tertiary health care services. Ensure that the benefits package corresponds to the established criteria of health need, cost-effectiveness and efficacy of services, protection from catastrophic expenditures, equity of access and population preferences. A transparent process should be institutionalized for the definition and revision of the benefits package, supplemented with adequate monitoring and evaluation. Protect the share of public health and PHC in the health sector budget over the coming years, and explicitly set these as monitoring indicators to be assessed during the annual budget negotiation process and also during analysing budget execution.

Message  
#9

Local governments have an important role to play as facility owners and financing agents, but further policy dialogue is needed on how to align decentralized roles and national health policy priorities.

The current Budget Code expands taxing power of local governments. Without close monitoring and timely corrective measures, current fiscal decentralization policies may inadvertently lead to less equitable (e.g. forcing electricity cuts, dilapidation in infrastructure in poorer regions) and less efficient health spending (e.g. purchasing extra equipment to facilities which may not be of priority) across the country. A range of instruments are available to ensure coherence with national plans and policies including formal regional dialogue platforms around health priorities, local master planning and service planning exercises, agreeing on non-overlapping roles in health financing and incentivizing local government action in health. In all cases, a transition plan should be put in place to gradually strengthen regions with low fiscal capacity and low spending on health from their own revenues without alienating richer areas, which are spending their own revenues on health, including for providing services beyond the medical guarantees programme and financing incentive programmes to health workers.

***Policy consideration:*** Engage in policy dialogue on how to achieve policy coherence between national health policy priorities and local government action as owners and financiers. This will involve a dialogue over the desired end model of non-overlapping roles in health financing between the Ministry of Health, the NHSU and local governments as well as joint priority setting and planning exercises.

Message  
#10

Strategic purchasing, contracting, and new financial incentives are well designed, and implementation is going well; however, to achieve changes in clinical practice on the ground a wider range of instruments, such as institutionalized mechanisms to improve quality, are needed.

Purchasing PHC services was the first step in implementing a strategic purchasing function in Ukraine through the newly established NHSU. For the first time, residents are legally given the right to choose a PHC physician; PHC public and private providers are given equal opportunities to participate in the medical guarantees programme; public financing of PHC is prioritized; and the principle “money follows the patient” is implemented. In less than a year, 27 million or 65% of Ukrainians made a choice and signed declarations with primary care physicians. The NHSU developed transparent rules for PHC provider contracting and financing and contracted 1276 organizations to provide a guaranteed package of PHC services. Similarly, the NHSU is gearing up to introduce contractual mechanisms with providers of outpatient specialist services and hospitals based on a combination of global budgets and closed-ended volume incentives. To demonstrate change in clinical practice on the ground, a wider range of instruments are needed beyond financing including definition of the vision of the model of care, quality improvement mechanisms, provider performance monitoring and benchmarking. Information systems and digital solutions will provide opportunities to achieve these, and implementation of the e-health system should proceed rapidly. This is a huge next generation challenge requiring close collaboration between the Ministry of Health and NHSU with involvement of providers and local governments.

***Policy consideration:*** Continue strengthening the strategic purchasing model at all levels. Invest in provider service and performance monitoring. Strengthen the NHSU capacities and establish electronic systems to manage claims, track provider performance, priority services, referrals, detect gaming and fraud, manage unintended consequences of the capitation payment system and monitor the quality of care. At provider level, invest in health management information system capacities (medical records), clinical management and training. In the Ministry of Health, improve regulatory basis, governance and implementation of quality monitoring and assurance systems (licensing, accreditation, clinical guidelines, clinical audit, continuing education, etc.). Develop a vision for future service delivery model of care and transition path.

## Message

### #11

For sustainability, it is important to build distributed ownership for the reforms among key stakeholders including local governments, providers and the population.

The first stage of the reforms required political leadership and implementation effort at national level. The next stages of the reform, including hospital restructuring and improvement of quality of care, will require an increasingly participatory approach and joint effort of stakeholders at all levels. For the success of the reform, this requires expanding communication efforts to different audiences so that providers and the population are better informed and demand continued change.

***Policy consideration:*** Stewardship of the reform will need to be inclusive. The reform implementers should seek agents of change at the levels of facility owners and their managers, clinical professionals and their associations, and invest in citizen engagement efforts.







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