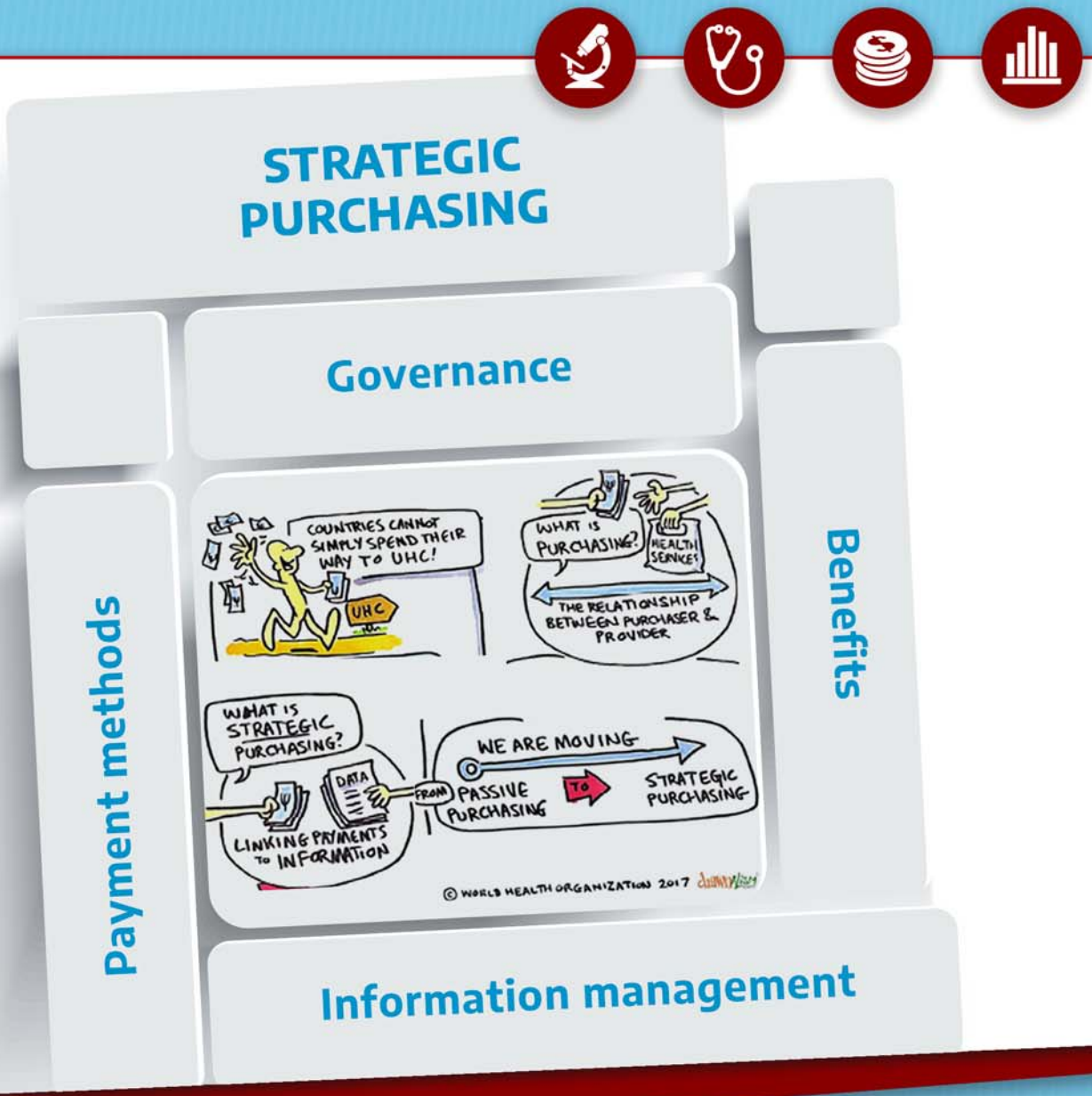
HEALTH FINANCING CASE STUDY NO. 16

GOVERNANCE FOR STRATEGIC PURCHASING IN KYRGYZSTAN'S HEALTH FINANCING SYSTEM



World Health Organization

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LIST OF ABBREVIATIONS

CEO	chief executive officer
CHE	current health expenditure
EHIF	Estonian Health Insurance Fund
GDP	gross domestic product
JAR	joint annual review
MHI	mandatory health insurance
MHIF	Mandatory Health Insurance Fund
MOF	Ministry of Finance
MOH	Ministry of Health
PAC	Public Advisory Council
PFM	public financial management
SB	supervisory board
SGBP	state-guaranteed benefit package
SWAp	sector-wide approach
VHI	voluntary health insurance
WHO	World Health Organization

EXECUTIVE SUMMARY

This paper is part of a series of country case studies on governance for strategic purchasing. It describes and assesses governance in the single-payer system of the Kyrgyz Republic. The case study is structured around four assessment areas listed in the box below, in line with a recently published WHO methodology for assessing governance arrangements for strategic purchasing (WHO, 2019).

Assessment areas:

1. The broader, political and general governance context and overview of the health financing system
2. Governance of the health care purchasing system
3. Governance arrangements of an individual purchaser
4. Conducive factors for effective governance for strategic purchasing

One of the smaller and poorer countries of the former Soviet Union, Kyrgyzstan reached lower-middle-income country status in 2014. Comprehensive health financing reforms over the period 1996–2006 created a single-payer health financing system. Most public funding is pooled in the Mandatory Health Insurance Fund (MHIF), which introduced provider payment reform alongside a better-defined benefit package with explicit co-payments and exemptions for priority services and for vulnerable groups. As a result of the reform, financial protection improved but out-of-pocket payments still account for around half of current health expenditure (CHE). The health financing reforms have remained in place with reasonable policy stability over a period in which the country has weathered a series of political and economic crises.

At the level of the **health purchasing system**, governance in Kyrgyzstan benefits from relatively comprehensive consolidation of public expenditure in a single pool, which potentially gives the MHIF strong leverage for strategic purchasing. However, this potential is not fully realized because of weaknesses in strategic coordination with the Ministry of Health (MOH), and a history of misalignment between health financing reform and public financial management policy and processes. Recent progress has been made through stronger cooperation between the MHIF and the Ministry of Finance (MOF) to increase alignment of public financial management (PFM) and give the MHIF greater financial autonomy.

The MHIF is an independent public administrative agency which, since 2009, has been subordinate to the Cabinet of Ministers. In the early stages of reform implementation, the MHIF was an agency subordinate to the MOH, which proved helpful for close coordination. The current more independent status of the MHIF has been important for enabling it to consolidate its technical and administrative systems for purchasing, and to sustain these with a high degree of stability, in spite of many changes of government and ministers.

At the level of **governance of the MHIF**, however, challenges remain. Legislation governing the MHIF does not set out a clear division of authority between the MOH and MHIF nor does it formalize coordination and oversight arrangements. The MHIF has a supervisory board (SB) established by the Cabinet of Ministers but, because its role is not enshrined in legislation, it does not have real authority. It plays a largely passive role in approving operational strategies, budgets and the annual report. As a result, the MHIF's SB and management lack sufficient autonomy to make decisions needed to enable strategic purchasing. The MHIF has multiple lines of accountability to the SB, the MOH, the MOF and a separate Public Advisory Council (PAC) of citizens, making it difficult to achieve sustained coherence between these lines of accountability. The governing agencies or bodies have not established results-oriented governance. There are no rules for preventing or managing conflict of interest in the SB or the PAC. The MOH itself has some conflict of interest because the public provider network is subordinate to the MOH, meaning that it is not well-placed to be a neutral steward over both the purchaser and providers of the health system. However, perhaps the greatest challenge to effective governance for strategic purchasing in the Kyrgyz Republic is the lack of a credible budget constraint due to a very large financing gap between MHIF revenue and the cost of the benefit package it is expected to cover. This makes it difficult to hold the MHIF accountable for the core financing objectives of improving financial protection, service quality and access.

Addressing these challenges in the Kyrgyz context is difficult. Strengthening governance through the SB will take time because there is little experience in the country of the "western" model of performance-oriented corporate governance, and consequently limited capacity available in any sector for governance boards. The new model of governance was overlaid on top of an only partly reformed Soviet-legacy system of centralized norms and regulation of inputs in the health system, accompanied by multiple inspections and sanctions. In addition, building the **conducive factors for effective governance**, such as data and analytical capacity to support results-oriented governance, has been constrained by the scarcity of human resources and the limited administrative budget in the MHIF.

In spite of these constraints, the chief executive officer (CEO) of the MHIF has taken steps in recent years, supported by WHO, to put in place basic good governance practices in strategy formulation, agenda-setting and reporting to the SB, and induction training has been offered to SB members. Providing practical technical support for these initiatives, together with support for improvements in data analysis and presentation used in reporting, has proved to be a useful entry point for strengthening governance.

Another lesson from the Kyrgyz experience is that it is important to dovetail the new governance mechanisms of an SB with the existing lines of accountability and authority and to clarify how these should interact. Focusing the membership of the governance body on representation of agencies with key roles in MHIF statutory accountability (notably the MOH, MOF, Prime Minister or presidential administration, and the parliamentary health committee) allows use of the SB as a mechanism for bringing multiple lines of governance together and coordinating them. Devising mechanisms to ensure there is some continuity of board membership during government transitions would also be helpful. The Kyrgyz

experience also brings out the importance of support for developing both ends of the accountability relationship – i.e. clarifying the MOH stewardship roles and building relevant capacity to play a major role in MHIF governance.

Tackling the mismatch between the state-guaranteed benefit package (SGBP) and the MHIF budget constraint – an important enabler for stronger accountability for financial performance and financial protection – will continue to be very difficult in the context of low- and lower-middle-income countries like Kyrgyzstan. This challenge will require greater discipline over un-funded decisions to reduce co-payments and expand benefits as well as sustained commitment over the long term by the Kyrgyz Government to mobilizing resources for health. Nonetheless, the Kyrgyz case demonstrates there is scope for the MHIF to use its purchasing levers to achieve efficiency improvements and re-invest these gains into improvements in quality of care. These improvements could be more substantial if there is close coordination with the MOH and its facilities in planning, regulation and health human resources policies.