Promoting Civil Society Monitoring of Secondary Healthcare Reform

During October 2007 - May 2008, Transparency International Georgia implemented the project *Promoting Civil Society Monitoring of Secondary Healthcare Reform* with funding from the Eurasia Partnership Foundation. The proposal was designed to follow on the heels of the government's initiation of hospital sector privatization and had two main objectives: promote the effectiveness of the healthcare system in Georgia and improve the capacity of civil society to monitor the reform of secondary healthcare in Georgia.

Through its project, TI Georgia reviewed and monitored the implementation of select privatization agreements, trained journalists about the intricacies of secondary healthcare reform throughout the country, and provided recommendations to the Ministry of Reform Coordination and the Ministry of Economic Development, the two ministries responsible for secondary healthcare reform implementation.

Post-Revolution Healthcare Reform

The post-Rose Revolution government identified the hospital sector rehabilitation as one of the primary targets of the healthcare reform in Georgia. In January, 2007 Prime Minister Zurab Noghaideli signed a document approving the government's "Hospital Development Master Plan." According to this Plan, following its implementation (after three years) Georgia would have 100 new hospitals with 7,800 new beds (4,185 of them in Tbilisi and 3,615 in the regions[1]). The hospital rehabilitation program was named "100 New Hospitals" and it entailed transferring ownership of almost all state-owned hospitals in Tbilisi and the regions to the private sector through privatization. The government chose to turn the deteriorated healthcare industry over to the private sector with the idea that this would lead to increased competition, higher investments into the sector, and finally, the provision of better medical services. According to the government, its reform plan guaranteed access within a half-hour's driving distance to basic medical care for 80 percent of the population.

Since the first stage of the hospital sector reform focused on privatizing existing hospitals, the responsibility for its implementation was signed over to the Ministry of Economic Development, which is responsible for administering privatization processes in Georgia.

The state is receiving no financial dividends from the privatization of its hospital sector assets. Rather than bidding on existing hospital facilities, investors propose to the government the number of hospitals they plan to build (and the number of beds they plan to provide). Initially investors must use the purchased land to build hospitals, but after seven years they are free to convert the land and hospital facilities for other uses. The property is being sold in lots, with some land/facilities in Tbilisi and some in less attractive, more remote regions. A positive result of this "mixed bag" approach, according to the government, is that significant investment is being made in the

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establishment of modern facilities and the provision of healthcare services in previously neglected parts of the country.

The Process of Hospital Privatization

The tender announcements were posted in the investment business weekly "Mesakutre" [Proprietor] and on the Ministry of Economic Development website (www.privatization.ge).

Tendering Criteria

The criteria for investor selection appeared to be evolving as the privatization program progressed. For the first four tenders (concluded between 11 January and 30 March 2007) the sole criterion for investor selection was the *quantity of beds proposed* for purchase. Using the quantity of beds as the only criterion for investor selection directly contradicted one of the main goals of the hospital rehabilitation process – optimizing the number of hospital beds in order to ensure better financing per bed and contribute to improving quality of medical services.

In the announcement of the results of the fifth tender, the government described a more elaborate set of criteria for investor selection, specifically *maximal bank guarantee* and *terms of construction completion*. According to the government, the bank guarantee was added as a security measure, to ensure that bidding investors possessed financial resources necessary for meeting their commitments (to build and equip new hospitals).

Tender announcements Nos. 6 and 7 were the first to include a list of new "conditions," including *maintenance or repair of existing departments* of the privatized facilities, *purchase of certain types of medical equipment*, *demolition of certain buildings*, and finally—*removal and resettlement of refugee families* that had been residing on the grounds of state-owned hospitals.

Completed and Ongoing Tender Projects

Currently there are 15 hospital sector development projects in place. As part of these projects, 193 hospitals are intended to be privatized, out of which 18 are in Tbilisi and the other 175 in the regions. As of February 2008, three privatization contracts are signed: Project Nos. 1, 5, and 8.

Project No. 1 includes Zugdidi Healthcare Facilities and the Hematology and Transfusion Scientific Research Institute. According to the signed agreement, the investor must build a general profile hospital with 100 beds in Dighomi, renovate several Zugdidi healthcare facilities, and establish a blood bank.

Project No. 5 includes LTD M. Tsinamdzgvrishvili Cardiology Scientific Research Institute, LTD Tbilisi 4th Clinical Hospital, LTD M. Guramishvili Pediatric Clinic, LTD Tbilisi Maternity House, and LTD Radiology Clinic. According to the agreement, the investor must build a general profile hospital with 190 beds in Sanzona in 17 months. This agreement also includes a detailed medical appliance list.

Project No. 8 includes the Georgian National Center of Ophthalmology and Neurology, Shalva Koridze Maternity House, and the Scientific-Practical Recreation Plastic Surgery and Thermal

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Affects Center. The official winner is Unimsheni. According to the agreement, the investor must build a fully equipped general profile hospital with 150 beds in Ortachala in 23 months.

Seven more projects are being worked out at the moment and two have been submitted to the government for consideration.

Health Personnel Assessment of the Hospital Privatization Process

In order to assess stakeholder views on the reform of secondary healthcare, TI Georgia held meetings with the representatives of different international, state, and non-governmental organizations, with Georgian state structures, and with hospital heads and medical personnel. Thirteen out of 18 hospitals based in Tbilisi were visited in this process. The analysis is based on face-to-face interviews with and questionnaire responses from administrators and medical personnel in thirteen out of the eighteen hospitals in Georgia. A total of sixty-four respondents were interviewed for this research.

The main areas of interest for both the interviews and survey were as follows: (a) Awareness level of the surveyed medical personnel about the process of the hospital sector privatization and main sources of information, (b) Medical personnel's assessment of the process of the hospital sector privatization: its compatibility with the set goals and objectives, transparency, and outcomes, (c) Medical personnel's opinions about the sustainability of new hospitals and investors' commitments to providing healthcare services over the long-term, and (d) Medical personnel's assessment of and opinions about the regulatory mechanisms in the healthcare sector.

Results of the Research

Respondents' Awareness of Healthcare Reform Processes before and after 2003

In order for the reform initiatives to be successful, it is important to work toward ensuring that the main stakeholders support these initiatives, that they are informed about them, and that they are involved in designing, as well as in implementing them. Taking this into account, TI Georgia's research activity sought to identify the medical personnel's awareness of the healthcare sector reform processes prior to and following the government change in 2004. As this research showed, the medical personnel was more informed of the reform processes taking place in the country in 1996-2003, than about the reform processes developing since 2003. The number of the informed personnel decreased further when they were asked to speak about their awareness of the hospital privatization process in particular. As the survey showed, only 41% of the respondents were adequately informed about the privatization process.

Main Sources of Information about the Post-2003 Healthcare Reform

Respondents that indicated that they had information about the current hospital sector reform initiative were asked to indicate the main sources of information on the topic. These sources were the media, hospital administration, and the Ministry of Health, Labor, and Social Affairs. The Ministry of Economic Development and the investors involved in the process were rarely cited by respondents as a source of information about the privatization process with only 12.5% naming the

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Ministry of Economic Development and 3% the investors. Given that the Ministry of Economic Development and the investors are the two most important players in the privatization process, the medical personnel were particularly interested in receiving information from these two sources. They specifically called for meetings with the bidding investors in order to learn about their objectives vis-à-vis the hospital sector and the means and mechanisms for meeting these objectives.

Main Goals and Objectives of the Hospital Sector Development Master Plan according to Medical Personnel

In order to assess the respondents' opinions about the main goals of the Hospital Sector Development Master Plan, TI Georgia asked the interviewed hospital heads and medical personnel to name what they thought was the most important part of the Plan for the government.

The majority of the respondents stated that the government's top goals were: (a) optimizing the hospital sector, (b) optimizing the number of medical personnel in particular, and (c) promoting private investment into the healthcare sector. At the same time, 73% of the respondents said that the Master Plan does not ensure (a) physical and geographic accessibility of medical services, (b) optimization of hospital beds, (c) improvement of hospital sector appliances, and (d) improvement of hospital infrastructure or the quality of medical services.

The main reasons to this rather critical assessment of the Master Plan and its compatibility with the goals delineated in it were the problems observed by the medical personnel during the privatization of hospitals. These problems are discussed in a greater detail below.

Respondent's Evaluation of the Privatization Process: Its Goals, Transparency, Effectiveness, and Legal Aspects

In general, the number of the surveyed medical personnel who assessed the process of the hospital sector privatization positively, taking into consideration its different aspects, was very low (18%). On the contrary, 66% assessed this process negatively.

Out of different elements of the privatization, the effectiveness of tender criteria was considered to be the most problematic; the lack of transparency of the process was regarded as the second most problematic; and the legal procedures involved were highlighted as third most problematic. The surveyed hospital staff stated that the government paid most attention to the financial guarantees provided by the bidding investors and to the speed of the hospital construction/reconstruction as suggested by the investors, while it disregarded the participant investors' experience in the health sector and overlooked the importance of a detailed development program presented by the potential investors.

The hospital staff stressed that the selection process could be improved by redirecting attention toward: (a) a detailed hospital development program offered by the bidders – this should include production efficiency, a hospital management system, medical personnel employment, etc., (b) investors' experience in the sector, (c) guarantees for financial affordability of medical services offered by the privatized hospitals, (d) financial guarantees provided by the investors, (e) medical equipment proposed by the investors, (f) qualification level of medical personnel to be secured by the investors, (g) speed of construction/reconstruction, and (h) number of beds offered.

Timeframes of the privatization process and building of hospitals

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The government originally planned to set a two-year deadline for completion of new hospital construction, but later expanded it to three years. The European standards for building and equipping a new hospital from start to finish are a minimum of five to six years. Nevertheless, more than one third of the respondents considered that the timeframes for the privatization process are either sufficient or even too long. Forty four percent, on the other hand, said that the privatization process is too short.

According to the medical personnel, what is more important in terms of the hospital sector reform is not the timeline associated with the privatization process and the hospital construction but further accountability and responsibility of the investors in terms of the quality of healthcare provided by the new hospitals.

Sustainability of new hospitals and investors' commitment to providing healthcare services over the long-term

According to the terms of the tender contracts, the new facilities must function as hospitals for seven years from the date of the conclusion of the tender agreement. After seven years, investors are free to use the former state-owned property for any purpose they deem desirable. At this stage it remains unclear what incentive will investors have to continue providing healthcare services after seven years? Thus far the winning bidders in the hospital privatization program have been real estate developers and pharmaceutical companies whose long-term commitment to healthcare development in Georgia is unclear.

The government assumes that after building and operating high-quality hospitals, these hospitals will become profitable and thus it will be in the interests of their owners to continue their operation after the completion of the seven-year period. However, the vast majority of the respondents to TI Georgia's survey expressed concerns about the likely unprofitableness of the new hospitals, especially in the regions. According to the Master Plan, most of these (regional) hospitals will be supplied with just 15-25 beds. Even in the regional centers, most new hospitals will have the capacity of less than 150 beds. Small rural hospitals will provide only the most basic emergency and urgent care services. In these facilities, just one of the fifteen or twenty-five beds will be equipped for more comprehensive (thus more profitable) care.

The respondents also expressed fears that without a proper regulatory system in place, investors would most probably try to expand their facilities for providing more lucrative types of care (i.e., increase their number of "general profile" beds) at the expense of minimizing the share of less lucrative types. In the end, patients in need of less lucrative types of care, such as chronic cardiovascular, oncological, or psychiatric disorders and infectious diseases, could be left entirely without local access.

Affordability of medical services after the privatization process

An important concern in terms of the transfer of ownership of the state-owned hospitals in Tbilisi and the regions to the private sector is connected with the prices of medical services following the privatization. It is argued that the privatization will increase the costs of medical services. Ninety percent of the interviewed hospital staff shared this concern.

The respondent's opinions about how to avoid or address financial overburdening of the consumers varied. The following suggestions were offered by the hospital heads and personnel involved in the

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research:

- The vast majority of the respondents said that the increased prices had to be coupled with increased state financing of socially vulnerable groups.

- Sixty-seven percent of the respondents said that there should be obligatory state insurance. However, there is concern that Georgia's health insurance industry is still too small to assume responsibility for financing the healthcare needs of the majority of the population.

- Thirty percent of the respondents consider that the new hospital management groups (new owners) must provide economic plans and estimations that will prevent the significant increase of fees for medical services.

- Sixteen percent of the respondents said that the state should play no role in this process. In their opinion, this system will be most effectively regulated by the principles of a market economy.

- Five percent of the respondents indicated there is a need to combine public financing of the sector with private health insurance. According to them, properly developed state and private medical insurance systems and relevant legislative frameworks are the most efficient ways to avoid an increased financial burden on the consumers.

Regulatory Mechanisms for Ensuring Quality Healthcare

Worldwide government engagement in the regulation of the healthcare sector and its fulfillment of the "stewardship function" are considered to be important aspects in the provision of healthcare services. In general, the healthcare sector is one of the most regulated sectors in all countries, including developed ones.

According to the interviewed medical personnel, licensing of hospitals, medical appliances, and medicine along with accreditation strategies and certification of medical personnel are important elements of quality healthcare provision. Thirty-one percent of respondents believe that the Georgian government should retain the ultimate responsibility for the performance of the healthcare system. In their opinion, the state must define the standards and guidelines/directives in relation to the hospitals' facilities (physical capital), medical personnel (human capital), and scientific approach (intellectual capital). Sixty-eight point seventy-five percent of respondents thought that this responsibility should be outsourced to the professional associations in this field. Fourteen percent of the respondents indicated that the standards and guidelines should be set with the involvement of both actors.

Importantly, the hospital privatization program contains no specific provisions on regulating or monitoring different types of services to be rendered in the new facilities. At the same time, as it was mentioned by most medical personnel, the technical standards of medical appliances that are being required from investors at the given moment are not sufficient to provide high quality healthcare. According to the government, the regulatory policies in the healthcare sector are under reconsideration at the moment.

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Conclusions and Recommendations

Based on this assessment, TI Georgia has the following recommendations for the continuation of the privatization of secondary healthcare and general healthcare reform in Georgia.

Increased Involvement of Other Agencies and Stakeholders

The privatization process should not be treated as solely an economic process administered by the Ministry of Economic Development. The Ministry of Health (together with the hospital staff) must be involved in the process in order to ensure that this first stage of the healthcare reform establishes a solid foundation for future efforts in this field.

The state agencies responsible for the reform of secondary healthcare should involve stakeholders in the design and implementation of the reform. In addition, hospital personnel should be allowed and encouraged to meet with investors. They should also be provided with investors' proposals so that they can analyze the investors' objectives and the mechanisms offered to achieve these objectives, and assist the involved state agencies in the process of selection.

Refined Selection Criteria

More attention should be paid to investor experience in the sector and the proposed hospital construction, development, and management plans. Eighty percent of the surveyed hospital personnel expressed concern that the winning investors mainly focused on the technical details on how many beds they planned to operate and how soon they would complete the construction process.

There should also be more consistency in applying the set criteria to promote greater efficiency, transparency, and fairness of the privatization process.

Greater Assurance of Sustainability

The profitability of regional hospitals (15-25 beds) needs to be reconsidered taking into consideration the small number of beds and the socio-economic conditions in the regions. The surveyed hospital personnel fear that after seven years and no profits, owners will transform hospitals into other more lucrative businesses and leave segments of the population without access to healthcare.

Following the previous recommendation, the seven-year condition regarding hospital function needs to be reconsidered. Whether or not the new infrastructure will retain a healthcare-related function over the long-term will depend largely on the quality of the private investors. For this reason, there is concern about the investors' level of experience in the healthcare sector, the lack of detail required in the plans submitted to the Ministry of Economic Development, and the state's current capacity and willingness to regulate the sector.

Improved Communication from and among Responsible Agencies

One reason for the negative attitude toward the current reform lies in the lack of information and transparency of the process. There is poor communication with the Ministry of Economic

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Development and the Ministry of Healthcare and the main source of information for respondents is the media.

To address this problem, information provision and two-way communication between stakeholders and implementers needs to be improved, e.g. by establishing formal communication mechanisms between the Ministry of Health and hospital sector representatives. Systems should be created in order to allow stakeholders to assess how problems are addressed after and outside of official meetings and the Ministry needs to improve its reporting in order to increase accountability.

Effective Regulation of the Healthcare Sector

The healthcare sector is the most regulated sector throughout the world, even in the most liberal countries. The interviewed stakeholders believe that some form of regulation is needed to ensure the success of the reform and sustainable, affordable, and high-quality healthcare. In their opinion, the state must devise effective regulatory mechanisms, including control standards/guidelines for facilities, infrastructure, equipment, and medical personnel. Regulations should also be implemented to ensure that less lucrative types of healthcare are not done away with in favor of more lucrative types. The state should also consider how to address the likely price increase for medical services in the privatized hospitals.

Evaluation of Success of Privatization and Compliance with Agreements

A government monitoring mechanism needs to be developed with a clear definition of involved state institutions, a distinct distribution of functions among those institutions, and requirements regarding the transparency of the process. The monitoring plan must include clear evaluation criteria related to bed occupancy, turn over rates, financial affordability, infrastructure, equipment, and personnel professionalism.

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