Transparency International Georgia

The Georgian Hospital Sector

With the support of the Embassy of the Kingdom of The Netherlands

Transparency International Georgia

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This report is the second of three reports that describe the status of the health care sector in Georgia. The goal of this project is to examine and raise awareness of ongoing reforms and developments in the health care sector. The project focuses on the pharmaceutical, insurance and hospital sectors. The content and opinions expressed herein are those of Transparency International Georgia and do not necessarily reflect the views of the Embassy of the Kingdom of the Netherlands in Tbilisi, Georgia.

Contents

Executive Summary

The health care strategy of the government of Georgia aims at improving the status of health care by increasing the affordability, the sustainability and the quality of hospitals. An important aspect of the policy has been the rapid construction of modernly equipped hospitals that function as multi-profile hospitals all over Georgia. The strategy entails a large-scale privatization where the ownership of almost all the hospitals has been transferred to the private sector over the last few years. While the construction of the new hospitals has been implemented rapidly in the last few years, this report argues that there are considerable problems in the ongoing reforms. The total privatization of the hospital sector, along with the lack of effective legislative arrangements in an environment that is characterized by vertical integration of companies in all the sectors, and a disregard for the rights of patients and medical staff, leads to various problems and is unlikely to result in a long-term improvement in health care. The current situation in the sector limits competition and it is therefore unlikely that the expected results will be achieved in the absence of institutional safeguards. The reliance on market mechanisms for the improvement of the health care sector is likely to fail in a market environment that lacks competition. Its is therefore important to ensure that institutional arrangements are in place -- either within the market or in the form of more active government intervention -- to guarantee accessibility, sustainability and the quality of hospitals. The main findings of this report are as follows:

Main findings:

- The government's strategy of privatizing the hospital sector resulted in the rapid construction of modernly equipped multi-profile hospitals throughout all of Georgia that are replacing old hospitals.

- Almost all the hospitals in Georgia are owned by private investors. Insurance companies own more than 40% of all hospitals in Georgia, while 30% of the hospitals are owned by individuals and 20% are owned by other types of enterprises.

- In many cases, it is not clear who the actual owner of a hospital is. In several cases where a hospital is owned by an individual or an enterprise, there is no information and clarity about the identity and background of certain individuals, enterprises or their owners. This lack of transparency creates doubts about their involvement, experience and long-term plans with the hospitals they own.

- In the large majority of regions, the same company that builds and operates the new hospitals is also the exclusive provider of social insurance. Vertical integration of insurance companies into the hospital sector leads to a conflict of interest that affects holders of social insurance and creates a risk that the treatment that patients are offered is not based primarily on medical considerations.

- It appears that the construction and operation of hospitals was imposed on insurance companies despite the fact that this is not a profitable enterprise for them. In order to compensate them for this, the old voucher based system of social insurance was abolished and different insurance companies were allowed to become monopolist providers in different parts of the country. As a result of the switch of social insurance from a voucher-based system to a

regional system, patients have lost the possibility to choose the company that offers them social insurance or the hospital where they will be treated.

- There are no guarnatees that secure the availability of services for the medium and long term. According to the tender contracts, investors should maintain the hospitals' profile for seven years after the signing of the contract for the facility they acquired. Of the hospitals in Georgia, 65% have less than 50 beds and 34% have between 11 and 20 beds. As it is unlikely that these hospitals will be profitable – especially in the regions – there is a serious risk that basic services, or even hospitals, will disappear.

- The prices for uninsured patients are rapidly increasing as the hospitals owned by insurance companies charge them higher prices than those patients insured by the insurance company. This leads not only to situations where the same service can be priced two times higher for uninsured people than for insured, but also to situations where people that did not qualify for social insurance cannot afford a treatment or surgery they need.

- The largest pharmaceutical companies are increasingly becoming active in the insurance market and hospital smarket. Pharmaceutical company Aversi is the owner of insurance company Alpha which provides social insurance for Tbilisi and several smaller regions. Aversi/Alpha also owns several hospitals and clinics in Tbilisi and neighboring regions. According to some sources, this leads to situations where the majority of the medicines prescribed in some hospitals are provided by the pharmaceutical company that owns the hospital.

- There are insufficient legislative and institutional arrangements that guarantee the quality of services and patient rights. When a patient's right is violated, he/she can file a complaint at the Health Insurance Mediation Service (HIM). The HIM is unable to enforce a compensation from the company that has violated a right since the powers of the HIM are limited. It only has the possibility to negotiate between the parties. The lack of periodic quality assessments, along with the inability of the service to protect patient's rights, leads to risks for the accessibility and the quality of services.

- The position of doctors is becoming worrisome. Several doctors as well as health care specialists, have highlighted the low salaries that doctors receive, especially in the regions and the lack of protection of doctors' rights. Companies as well as the government discourage the professional union from interfering between employer and employee. The low salary for doctors along with the absence of labour rights for doctors creates risks of corruption in the form of out of pocket payments and the risks of doctors leaving to other countries where their situation is better.

Recommendations

- *Guarantees for a long-term existence of hospitals and services.* The tender contracts oblige the owner of a hospital to sustain its profile for seven years. While the government assumes that the hospitals will be profitable enough to function after seven years, this is strongly doubted by the key stakeholders. The risk of regions being left without health care provision should be minimized through financial incentives, additional obligations for hospitals owners and a

program that will respond to the disappearance of services and hospitals in regions in a timely manner.

- *Increase the capacities of the Health Insurance Mediation Service.* The service does not currently have the authority to fulfill its prescribed functions. Furthermore, it solely relies on the complaints of patients. This system does not secure quality or the protection of patient rights in the long term. More regular assessments of hospitals examining the quality, sanitary standards, misdiagnosis and violation of patient rights should be evident in the absence of competition. The HIM should be given the authority to enforce its decisions.

- *Improve the position of doctors.* There should be a higher minimum salary for doctors. There should be more possibilities for doctors to mobilize and join labor unions. This is the only way to assure that specialists will not leave the country and that specialists working in other countries will return.

- *More information and more extensive monitoring of hospitals* is needed to widen the understanding of the effect of the current policy in order to timely respond to challenges and lead reform in the right direction.

Introduction

This report assesses the situation within the hospital sector of Georgia and the effects of the current policy. It describes the effects of privatization on the quality and accessibility of health care, along with patient rights and the rights of medical staff. Important elements are vertical integration in the sector where companies are active in the insurance, the hospital and the pharmaceutical sectors. It furthermore assesses how this policy will influence the long-term situation in the hospitals.

Research Method

The assessment of the market is based upon a bottom-up approach combining desk research, first-hand interviews, statistical data and field studies. In order to render the assessment as accurate as possible, information was verified through multiple sources.
Open in-depth interviews with doctors and health care specialists.
Desk Research: Analysis of existing reports about the policy guiding hospital reform and its effects. Academic literature and media reports were used as additional sources.
Statistical Data: An analysis of existing statistical data. A survey has been done to analyze the opinions of citizens regarding the ongoing reforms. We requested raw data from the government about hospitals, social insurance, beneficiaries, ownership and locations of hospitals which have been used to create estimations of ownership structures and market shares.
Field studies on hospitals in several regions and Tbilisi, interviewing staff and patients.

Health Care Sector Reform

The health care sector in Georgia has been under constant reform since 1995. Starting in1995, it transformed from the centrally-planned, state-led Soviet Semashko system to a private system. Market mechanisms were introduced into the system in 1995 with the privatization of the pharmacies and

dental clinics.[1] In 1996, the first steps were taken towards the privatization of hospitals, when hospitals and polyclinics became managerially independent, taking care of the internal organization and management themselves.[2] This strategy was the beginning of the privatization of hospitals since they were sold to private investors by the state. The policies developed in previous years often faced critique because of the lack of clear vision and the lack of the attention for the implementation phase, which eventually led to policy failure.[3] A former department head at the Neurological Rehabilitation Centre said that it was an unguided reform managed by people who did not have a medical background and had no idea how to develop a better system.[4]

In 1999, a hospital master plan was developed classifying three groups of hospitals: 1) hospitals that would be best left in the public domain; 2) hospitals that could be privatized and could maintain a service delivery function; 3) hospitals that could be sold as real estate without maintaining health service delivery.[5] In 2004, the new government officially ended the implementation of this Hospital Plan, which was replaced by a new policy in 2006.

Current Hospital Policy

The hospital sector faced serious problems in 2003 which heavily affected the quality and accessibility of health care that the new government had to deal with. The most frequently mentioned problems were:

- Outdated infrastructure
- A non-competitive environment
- Inadequacy and low quality of services
- Weak regulation and enforcement
- High level of out-of-pocket payments and corruption[6]
- Unequal distribution of health care services throughout the country.[7]

In 2006, the Ministry of Labour, Health and Social Affairs of Georgia (MoLHSA)and the Office of the State Minister for Reforms set out the main directions for the health policy for 2007-2009. The new policy aimed to create affordable and high-quality health care, increased accessibility and an improved infrastructure through the introduction of market mechanisms. An important development was the Hospital Development Master Plan, drafted in 2007, which called for a complete replacement of the existing hospital infrastructure. According to that policy, all ownership rights were to be transferred from the state to the private sector in a period of three years. In the regions, multi-profile hospitals

[1] Gotsadze G. (2009) *Household catastrophic health expenditure: evidence from Georgia and its policy implications,* Curatio Internatioan Foundation BMC Health services Research

[2] Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization, page:19

[3] Ibidem footnote 1

[4] Merab Lomia physician and medical reviewer

[5] Hauschild T. (2009) *Health-Care Reform in Georgia: A Civil Society Perspective: Country Case Study,* Oxfam International,Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization

[6] Hauschild T. (2009) *Health-Care Reform in Georgia: A Civil Society Perspective: Country Case Study,* Oxfam International

[7] Gotsadze G. (2009) *Household catastrophic health expenditure: evidence from Georgia and its policy implications,* Curatio Internatioan Foundation BMC Health services Research

were to be built and, depending on the number of residents in each region, the hospitals would have 25-50 or 50-100 beds.[8]

In the recently-published health care policy document -- "The Georgia National Health Care Strategy 2001-2015" -- the old policy emphasizing privatization continues.[9] The new document's directions and principles states that there will be no direct interference in the health care market, and there will be a total privatization of hospitals and primary health care.[10]

Privatization

Privatization plays a crucial role in the policy strategy and is expected to create efficiency in the sector by providing the best quality and affordability for patients.[11] Three reasons for this privatization policy have been mentioned: 1) the policy fits into the broader policy approach based on minimal regulation and a strong reliance on market mechanisms; 2) the MoH lacks the resources to build hospitals in a short period;[12] 3) the most frequently mentioned reason is the belief that privatization and introduction of market mechanisms will improve the efficiency in the provision of high-quality and easily accessible health care.[13] The encouragement of a competitive environment includes liberalization of regulations and minimal standards for health service provision.

It is assumed that market mechanisms lead to maximum efficiency and quality in the health care sector. There are however doubts whether this is the case and whether market mechanisms can be applied to the health care sector in the same way as to other sectors, for example, clothing or food. Several of our respondents have emphasized that health care is not an ordinary sector, and it cannot be treated like a "normal market".[14] Even in the most privatized health care sectors, for example in the United States, there is a minimum of basic institutional arrangements.[1516]

Doctors and health care specialists often mentioned in our interviews that privatization should be complimented by a more active government intervention to guarantee the most basic standards of quality. The doctors state that they do not see market mechanisms filling in the regulatory gaps that occurred, and therefore they call for action.[17] The current situation can have critical outcomes for the quality and the affordability of health care provision. In the Situation Analysis for the National Health

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[8] Ministry of Labour, Health and Social Affairs of Georgia (2011) *Georgia National Health Care Strategy: Access to Quality Health Care* http://www.moh.gov.ge/files/2011/failebi/xarisxiani-jandacva/jandacva_Eng.pdf

[9] Ministry of Labour, Health and Social Affairs of Georgia (2011) *Georgia National Health Care Strategy: Access to Quality Health Care* http://www.moh.gov.ge/files/2011/failebi/xarisxiani-jandacva/jandacva_Eng.pdf

[10] Ibidem footnote 8

[11] Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization, page 102

[12] *Statement by an official working in the Georgian health administration, 2 April 2008 as quoted in* Hauschild T. (2009) *Health-Care Reform in Georgia: A Civil Society Perspective: Country Case Study,* Oxfam International *page 31*

[13] Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization

[14] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia, et.al

[15] TI Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform*

[16] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia

[17] Ibidem footnote 15

Care Strategy and The State of Nation's Health and Health System, published by MOH ,the problems are widely discussed. The document states:

"Economic interests of private investors could well undermine the continuum of care provision to a patient and contain risks of negatively affecting health outcomes, and these risks are yet not mitigated on legislative and/or regulatory levels"[18]

"*Consequently it becomes important to revamp existing regulations and focus them on: a) Consumer protection aimed at ensuring services b) Economic regulation ensuring reliable delivery of high quality services on an on-going basis through regulating market entry and exit".*[19]

Regulation can guarantee a minimum of quality, availability and accessibility of services when market mechanisms fail due to the situation on the hospital market. In the current situation the majority of rules are not enforced and their compliance is based on voluntary engagement.[20]
In a previous report of TI Georgia called "Promoting Civil Society Monitoring of Secondary Health care Reform" the vision of the doctors was assessed when the policy was just launched.[21] Some concerns of medical personnel where presented. One of the major conclusions was that the respondents believe that there should be some form of regulation is needed for sustainable, affordable and high quality health care. The report states that 31% of the medical personnel surveyed believe the Georgian government should take the full responsibility for the performance of the health care system while 61% stated that this responsibility should be outsourced to professional associations in the field.[22]

[18] Ministry of Labour, Health and Social Affairs of Georgia (2011) THE STATE OF NATION'S HEALTH AND HEALTH SYSTEM: *The Situation Analysis for the National Health Care Strategy Development:* For official use only, page 23

[19] Ibidem footnote 18

[20] Health care specialist preferred to stay anonymous, Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization

[21] Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform*

[22] Ibidem footnote 21

Effects of the Policy on the Hospital Sector

The recent policy has enabled the rapid construction of modernly equipped hospitals throughout Georgia but has also caused setbacks. The next section describes the assessment of the effects of the current policy and the privatization on the hospital sector, including vertical integration, conflict of interests, patient rights and the position of medical staff.

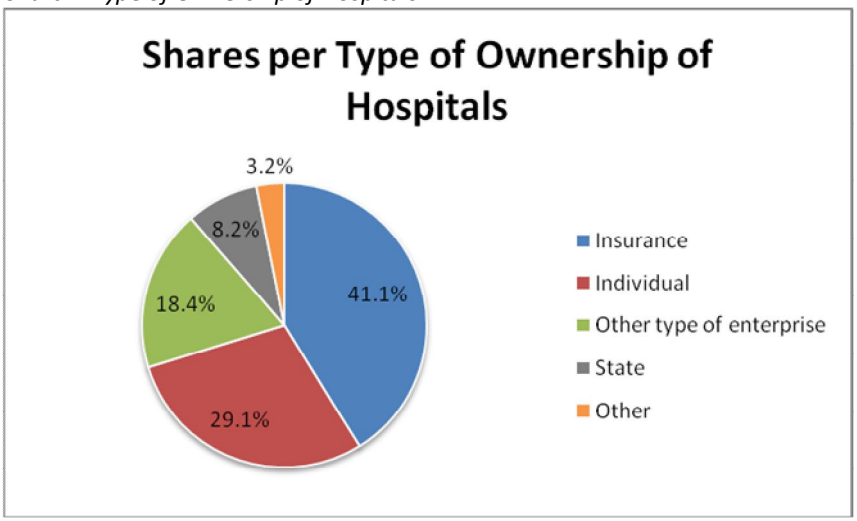
Ownership of the Hospitals

The Hospital Reform Plan from 2007 came under pressure soon after its introduction and was subject to grave setbacks. As a result of the economic crisis and the conflict in 2008, a decline in the general level of investment occurred which heavily affected the planned hospital reforms. To cope with these setbacks, the government involved insurance companies on a large scale to have the hospitals built.[23] Due to the absence of regulations or restrictions on the types of investors who could buy or build hospitals, pharmaceutical companies have also purchased hospitals and built their own clinics[24]

Who Owns What and How Many?

Out of the 151 hospitals expected to be functional throughout Georgia by the end of 2013, around 87 are already operational.[25] As a result of privatization and the involvement of insurance companies in the hospital program, 42% of these hospitals are owned by insurance companies. The shares by hospital ownership type are displayed in the following graph. The types of investors are subsequently described in more detail.

Chart 1. Type of Ownership of Hospitals[26]



[23] Chitanva M. et.al (2011) *Public and Expenditures on Education and Health in Georgia Before and During the Global Crisis,* Case Network Reports, No.101/2011, page 71

[24] www.Aversi.ge

[25] Information provided by the Ministry of Health, Labour and Social Affairs

[26] Information provided by the MOHLSA the percentages are based on the amount of hospitals owner per owner.

Individuals

Individuals own around 30% of all the hospitals in Georgia. It is difficult to find out who the owners really are. While it is possible to track the names of the formal owners it is often difficult to obtain additional information. We can assume, however, that some of these people are the doctors and medical professionals who operate their own clinics, while others are businessmen.

Enterprises

In some cases, it is impossible to obtain detailed information about the companies that own the hospitals, which raises question as to whether they have any experience of hospital management and raises doubts regarding their objectives and their strategy for health care provision. For example, one such company is IHOPE that owns nine hospitals in Georgia. A company called T Service owns 78 percent of IHOPE. T Service was originally owned by Alexander Berger and then aqciured by Elena Levin.[27] No information is available about either person. An attempt to collect information about the real owner of IHOPE - which owns 9 hospitals in Georgia -and the company's background was not successful. While we eventually found a website that said that Alexander Berger being an attorney at law was eventually found, he is not registered as an attorney in the state where he supposedly works, even though it is a requirement for practicing his profession there.[28] While it is completely unclear what IHOPE precisely is, it is even less clear what T-Service LTD does. The possibility that these are shadow companies for Georgian companies cannot be dismissed, but it is impossible to make any definitive conclusions because of the lack of information. The example of IHOPE is not an isolated incident as there are other companies with a similar lack of transparency. The absence of information about these companies (many of which do not even have a website) raises doubts about their long-term plans with the hospitals and their voluntary compliance with the governmental rules.

State-Owned Hospitals

The hospitals owned by the government are mainly mental institutions and/or hospitals that provide specific services. Other hospitals of this type have been built with the support of USAID and medical universities.

Insurance

Insurance companies own 42% of hospitals throughout Georgia. Due to several mergers and takeovers, the number of insurance companies is decreasing and only a few large companies are left that own the hospitals.[29] When analyzing the ownership of several companies, it appears that three companies own 80% of the hospitals and clinics in Georgia.[30] One important thing to note is the ownership of hospitals/clinics by Aversi and Alpha that are included in this statistic. The insurance company Alpha is owned by Aversi. Aversi has one hospital and Alpha has two hospitals. Furthermore, Aversi owns 5 clinics in Georgia plus two so called branches belonging to their clinic in Tbilisi. The medical institutions that are labeled as being clinics provide the same services (and, in most cases, even more) than the

[27] Information provided by the Public registry

[28] Website:http://www.mywsba.org/Default.aspx?tabid=177&ShowSearchResults=TRUE&LastName=Berger&SortExpression=Member_Last_Name%20ASC
http://www.sos.wa.gov/corps/search_detail.aspx?ubi=602465415

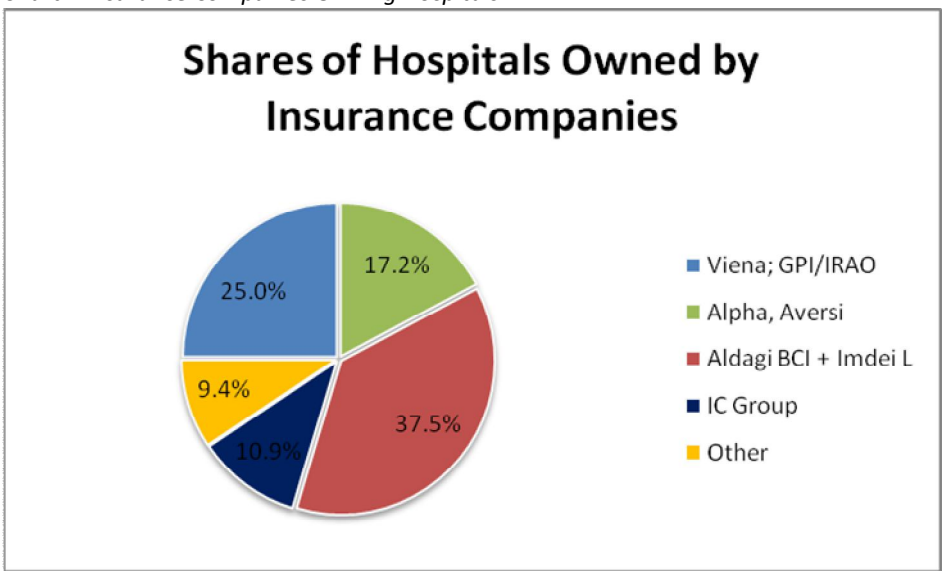
[29] Based on the amount of hospitals per type of owner

[30] Based on the amount of hospitals owned by insurance companies

general “multi-profile” hospitals in the regions.[31] For this reason, we have counted them as hospitals for the overall picture.

When looking at the ownership of companies, it appears that more than 80% of the hospitals in Georgia are owned by Aldagi BCI, the Vienna Group and Aversi/Alpha. Displayed in the chart below are the shares of the insurance companies that own hospitals.

Chart 2 Insurance Companies Owning Hospitals[32]



There are four insurance companies owning a large share of hospitals. Aldagi BCI is the biggest after its merger with Imedi L.[33] Aldagi BCI is owned by 49% by the Bank of Georgia, while the other 51% is owned by Galt & Taggart Securities. The Vienna Insurance Group is the insurance company that owns the second largest number of hospitals in Georgia, through its ownership of GPI Holding and IRAO. [34] The Vienna insurance group is one of the largest insurance companies that operates within 25 countries in Central Eastern Europe. Since 2006 the Vienna Group owns the largest number of shares of GPI Holding and IRAO in Georgia.[35] The third largest is Alpha/Aversi with a share of 17%.

Social Insurance and Hospitals

All companies that own large numbers of hospitals also have the largest shares in providing social insurance. The insurance market has been rapidly developing after the introduction of social insurance for a large part of the population. This boosted several companies that were awarded contracts and

[31] www.Aversi.ge

[32] Information provided by MOHLSA, percentages are based on the amount of hospitals owned by insurance companies only

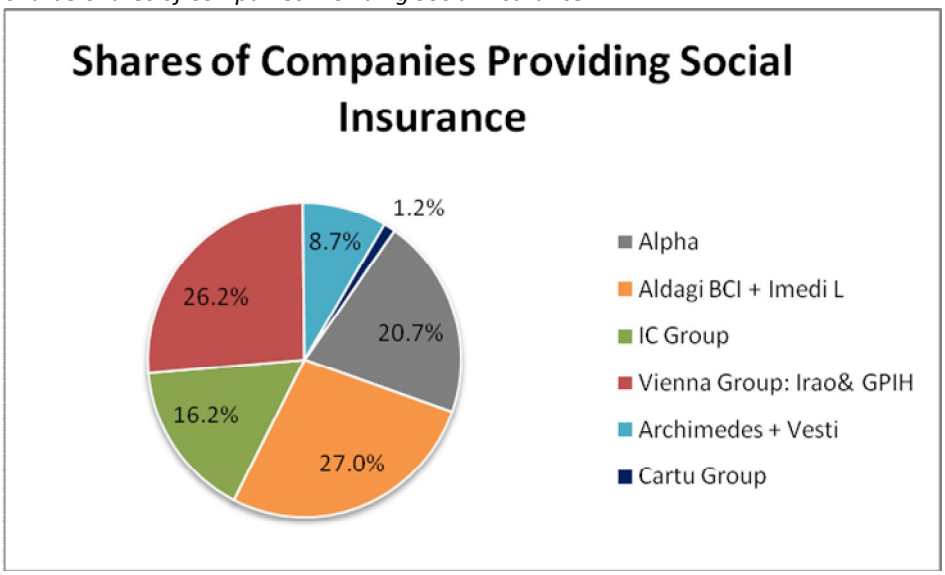
[33] Website:http://www.bci.ge/index.php?m=2&lang=eng http://www.georgiatoday.ge/article_details.php?id=10114

[34] Website:http://www.vig.com/en/jobs-career/vig-contact/vig-in-georgia.html http://www.vig.com/en/investor-relations/ir-newsad-hocnews/detail/vienna-insurance-group-increase-in-tbih-holding-to-100-percent.html

[35] http://www.vig.com/en/jobs-career/vig-contact/vig-in-georgia.html http://www.vig.com/en/investor-relations/ir-newsad-hocnews/detail/vienna-insurance-group-increase-in-tbih-holding-to-100-percent.html

suddenly received large amounts of public money to provide social insurance.[36] The chart below displays the shares of companies based on the premium and the number of people for whom they provide social insurance in Georgia. At the same time, these companies are the same companies that own the largest share of the hospital sector.

Chart 3 Shares of Companies Providing Social Insurance[37]



Regional Social Insurance System

There appears to be a connection between the change to a regional insurance system and the construction of new hospitals in the regions. In 2010, the social insurance system was changed from a voucher-based system to what could be labeled as a regional system.[38] In the old voucher-based system, people received a voucher that represented a premium with which they could choose the company that provided them with social insurance. This system was replaced by a regional system where insurance companies competed for contracts to insure all residents within each of the country's region. The result is a situation where social insurance in every region is provided by a single company.[39]
The regional insurance system received profound criticisms from our respondents. They state that the new system has considerably reduced the choice for consumers and reduced competition which, according to the government, is supposed to be a key determinant of efficiency within the health care sector.We examine competition-related implications of this switch from the voucher system to regional assignment in detail in our insurance sector report. Zurab Putkaradze, project director at Healthy World, says:

[36] Devi Khechinashvili, Head of the Georgian Insurance Association.
[37] Information provided by MOHLSA and The Ministry of Economy and Sustainable Development, percentages are based on the amount of beneficiaries plus the amount of premium provided by companies.
[38] Eka Paatashvili Head of the Regulation Division of Healthcare Department 28 December
[39] Devi Khechinashvili, Head of the Georgian Insurance Association.

"The authorities have violated the existing laws (the Constitution, the Public Health Law, the law on patients' rights), more precisely, the right of access to health care, which entitles citizens to freely choose where to get health care treatment in case of illness. In our case, the authorities gave a monopolistic position to a single insurance company by allowing them to cover Tbilisi's entire vulnerable population. Thus, you get one dominant insurance company that covers an entire region. This diminishes the population's chance to get more convenient offers from other competitors. This happened mainly to give those insurance companies some incentive to participate in hospital tenders which, in most cases, are not profitable for them, especially because so called hospital lots are sold in a package with an obligation to construct or renovate health care units in remote areas."[40]

A high-level employee of an insurance company noted about this:
"There is no choice for people to take an insurance company and competition has decreased considerably…every insurance company has obligations to build hospitals. This is not profitable for them at all and they don't really want to do this as it costs them to much money"[41].
"It is nonsense that a hospital is more efficient and therefore more profitable for an insurance company. A hospital just costs them too much money."[42]

The question remains, why this system that has reduced competition and could lead to inefficiency was implemented at all. A representative of MoH confirmed the allegations made by our respondents, stating about the change of the social insurance:

"I am not sure why exactly they changed the public insurance system, but what I think is that these companies also needed to build hospitals, which is very important. The companies were given the possibility to become insurance providers of a region and thus where able to generate the financial resources to build hospitals."[43]

Vertical Monopolization

A strong indicator that suggest that there might be an agreement between insurance companies and the government is the classification of ownership of hospitals and the companies that provide social insurance in a region. In most of the regions the owners of the new hospital are the same companies that provide social insurance. The map below shows this overlap which indicates the immense vertical integration that occurs from this. As a consequence, competition is unlikely to occur, as there is only one company that manages and provides health care financing, health care provision and in 20% of the cases also medicine. This situation of vertical integration entails the risk of conflict of interest and reduced competition.

Link map
http://tiles.mapbox.com/tornike/map/mergedinsurancecompanies

[40] Zurab Putkaradze, Project Director, Healthy World
[41] Employee at an insurance company that prefers to stay anonymous
[42] Ibidem footnote 42
[43] Employee of MoHLSA in an interview with TI Georgia

Effects of Vertical Monopolies

Competition is one of the basic premises of the current policy that is expected to create efficiency and lead to high-quality, accessible health care. It can be doubted, however, if competition can occur in the current circumstances. This discovery is widely supported amongst interviewees. One of our respondents, Devi Khechinashvili, head of the Georgian Insurance Association, said:

"It is absolutely obvious that today the construction of the health service provision system in Georgia is based on exclusiveness, because regions are mostly served by one financial company and one service provision company. This might develop into a system with barriers to competition which will lead to problems with service quality."[44]

Based on the results of the interviews we had with doctors and health care specialists, we assessed the current situation and the way in which the policy is expected to influence the quality of health care in the coming years. We found that a conflict of interest leads to situations where insurance companies try to save the money on patients, services get more expensive for those who are uninsured.

Conflict of Interest

A concern often raised by doctors in our interviews is that insurance companies will try to save money on a patient to whom they provide social insurance if that patient is in a hospital owned by the insurance company. Thus, the conflict of interest occurs when the same company provides a whole region with social insurance and owns all the hospitals there as well. Companies that provide people with social insurance will try to positively affect their own profit margin by making sure that people get the cheapest treatment or diagnosis in the hospital that they own as well.

Joni Janashia President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia as well as several doctors state that the situation where insurance companies own hospitals leads to insurance companies not spending enough money on patients in order to save money.[45] This critique has been supported by several doctors with whom we spoke in the regions and also by other experts. Simon Gabritchidze, executive director of the Welfare Foundation, states:

"Insurance companies cannot maintain hospitals without their social insurance programs. To save money, insurance companies make visiting a doctor very difficult. It will be difficult for hospitals to be profitable and this will affect the quality and amount of services."[46]

A surgeon told us, furthermore, that while there are annual checks for misdiagnoses in hospitals for which some companies have been fined, the checks lack effectiveness since they are not done on a sufficient scale to really prevent it from happening.[47] He states that insurance companies organize and instruct the medical staff in a way that they will spend as little money on a patient as possible. Insurance companies, according to several doctors, refuse to give a certain treatment or avoid giving certain treatments that will be too costly.[48]

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[44] Devi Khechinashvili, Head of the Georgian Insurance Association

[45] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia

[46] Simon Gabritchidze Executive Director of the Welfare Foundation

[47] Lasha Kalmakhelidze Surgery at the National Center of Surgery

[48] Surgeon working in Chiatura and Zurab Putkaradze, Project Director for Healthy World

We have met people that encountered this problem. One of them is a woman in Chiatura who got a hernia for which she needed a surgery. She visited the doctor in Chiatura, but, without giving a clear reason, he refused to give her the form she needed to receive hernia treatment in the hospital. The doctor in Chiatura also serves as the insurance company representative in Chiatura, which raises doubts about his judgment as a doctor. Due to this position, he represents different interests as well. Next to being an insurance representative and doctor, he is also a deputy manager of the hospital. After she went to a hospital in Tbilisi and paid for the service herself, it became clear she did need a treatment. Simon Gabritchidze, executive director of the Welfare Foundation, who researched this subject, states that there are dozens of stories of this kind and this does not seem to be an isolated incident.[49]

A second problem is the lack of choice. Insurance companies always try to send their beneficiaries to their own hospitals, where they can lower the price. This results in a situation where most of the beneficiaries do not have the possibility to choose either their hospital or their social insurer. This system lacks the basic arrangements for competition to occur and actually promotes the opposite, as people have no choice and depend completely on the decisions of the insurer.

Service Prices

In the new hospitals not only are the prices of services increasing, but the service prices also depend on whether the patient is insured and by whom. Various doctors working for different companies in the regions and in Tbilisi state that there are three different prices for the same service.[50] The price of the service is significantly lower when the insurance company that owns the hospital has to pay for the service itself. This is a logical consequence of the company saving money as it pays for the service itself through its insurance. The second price category is for the people insured by other companies. This price depends on deals between the insurance company and the hospital and on the number of people the insurance company is planning to bring to the hospital. The third category is the most profitable group and consists of people who are not insured through social or private insurance.[51] This group often consists of people who do not have private insurance and who do not receive social insurance, as they are just above the poverty line. The prices of these services can be up to three times higher than the prices charged for socially insured people. This results in a situation where people cannot afford treatment or have to borrow money to pay for their treatment as the service price for this group is increasing. Joni Janashia, President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia, states:

"You see a situation emerging, where a doctor is dependent on the insurance company he works for, and he is instructed to act in their interest. We have heard many allegations from our members that this results in situations where they are obliged to offer the cheapest service for the highest price, while the service doesn't even have to be the service that the patient needs ."[52]

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[49] Zurab Putkaradze, Project Director for Healthy World and Simon Gabritchidze, Executive Director of the Welfare Foundation

[50] Surgeon in Chiatura and Lasha Kalmakhelidze, head Surgeon at the National Center of Surgery

[51] Surgeon in Chiatura and Lasha Kalmakhelidze, head Surgeon at the National Center of Surgery

[52] Joni Janashia President of the health, pharmaceutical and social care workers independent trade union of Georgia

This is a worrisome situation where large parts of society will get cheap but irrelevant medical treatment or no treatment at all. These people often cannot afford private insurance, but do not qualify for social insurance.

Pharmaceutical Companies Owning Insurance Owning Hospitals

As stated above, pharmaceutical companies are entering the hospital market as well. Currently PSP has one hospital in Tbilisi and Aversi/Alpha has seven clinics in and around Tbilisi that provide the same services as most of the multi-profile hospitals and is planning to build two other clinics. While these medical institutions are defined as clinics most of them provide the same services as most of the multi-profile hospitals being build in the regions.[53] Aside from these clinics, Alpha the insurance company of Aversi, also has two hospitals. At the same time, Aversi/Alpha provides social insurance in Tbilisi and has the largest shares in all sectors of the pharmaceutical market where it operates.

The new hospitals and clinics of Aversi/Alpha and PSP are all equipped with the newest technology and the hospitals seem to devote a great deal of attention to the quality of their services and the professionalism of staff. However, the various roles that these companies play in different health care sectors seems to lead to many complications for the hospitals they own. Several doctors, who opted to stay anonymous, told us that they work with a list, given to them by Alpha, in which it is pointed out what medicines they should prescribe. Almost all of these medicines are Aversi products. While a surgeon working for one of the hospitals explicitly told us that Alpha does not stimulate him directly to prescribe their medicines, most of the medicines they have in stock are produced or supplied by Aversi. He estimated that 95% of the medicines prescribed are from Aversi. The remaining 5% are medicines which Aversi does not have themselves. Especially socially insured people are prescribed Aversi medicines, because they do not have money to pay for other medicines themselves. Several doctors have told us that this creates a situation where they sometimes have to prescribe medicines which they know are not the best option, but are the only alternative. They can sometimes tell a patient to buy another medicine, but then the patient has to pay for this medicine himself, because it is not reimbursed.

Sustainability of Small Hospitals

Of all the hospitals in Georgia 34% have between 11 and 20 beds, 17% have between 21 and 30 beds and 14% have between 31 and 50 beds. None of the experts or doctors believe that it is possible to make a profit from a hospital that has less than 50 beds. In a previous TI Georgia report an expert of the World Bank states that international experience showed that hospitals with less than 200 beds are often not able to extract enough profit to maintain all services in the long term.[54] The head surgeon states that services such as emergency care and oncological services are not profitable at all and can only be provided if a hospital also provides a range of profitable services.[55] A large multi-profile hospital that provides services, such as cardiac surgeries, on a regular basis can generate the profit to provide other

[53] http://www.aversi.ge/main_clinic.php?lang=eng&id=407&cat_id=3&type=4

[54] TI Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform*

[55] Lasha Kalmakhelidze, head Surgeon at the National Center of Surgery

services as well. However, in the regions it is impossible to provide these services at all. There is a risk that even the bigger hospitals can suffer losses as insurance companies will not pay for the more expensive operations, which therefore disappear from the hospital's list of services.[56] The insurance company that owns a hospital and has to reimburse the services it provides will lose money when it has to provide the more expensive services, so it will stop providing and reimbursing such service. According to Joni Janashia:

"In our opinion, a 20-25-bed "hospital" will never be able to fulfill the same functions as the district hospital."[57]

As there are no regulations in place that describe the necessary services to be provided, insurance companies owning a hospital will deny patients a service that is known to be expensive. Several of the doctors have expressed concerns that in a few years a very limited range of services will be provided that are profitable and don't cost the insurance company much money.[58] In the regions it is even possible that a hospital will only have a few beds left and will not have the capacity to provide emergency care since it is not profitable.

Sustainability of New Hospitals

According to several tender contracts cited in a previous report by TI Georgia, owners are obliged to keep the profile of the hospitals for seven years.[59] After seven years the investors are free to use the property they own as they wish. A MoH representative suggested that the hospitals will keep providing a broad range of services after the seven years, because there will always be a demand for health care and thus it will always be profitable for the owners to be running the hospitals.[60] Doubts have been raised regarding this kind of expectation and there has been some major critique on the policy by Ofxam, Case, and the World Health Organization, as well f TI Georgia.[61]

While the government assumes that the hospitals will be highly profitable and their services will be sustained, many of our respondents believe that the hospitals will be anything but profitable, especially in the regions. Currently, 34% of the hospitals being built have between 5 and 25 beds and thus have a minimal capacity and a limited range of services. Even the bigger hospitals that are being built often do not have more than 100 beds. According to a former employee of the World Bank, foreign experience has proven that hospitals with less than 200 beds are rarely financially lucrative.[62] Another doubt is that the small hospitals in the regions might expand their activities to the lucrative types of health care and shift away from the less lucrative types of care. While it is assumed that they provide emergency and

[56] Lasha Kalmakhelidze, head Surgeon at the National Center of Surgery

[57] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers Independent Trade Union of Georgia

[58] Expert for the World Bank and WHO that prefers to stay anonymous and Lasha Kalmakhelidze, head Surgeon at the National Center of Surgery

[59] Hauschild T. (2009) *Health-Care Reform in Georgia: A Civil Society Perspective: Country Case Study,* Oxfam International and TI Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform and* Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization

[60] Interview with government official.

[61] Hauschild T. (2009) *Health-Care Reform in Georgia: A Civil Society Perspective: Country Case Study,* Oxfam International and TI Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform and* Chanturidze T. Et. Al. (2009) *Health Systems in Transition: Georgia Health System Review,* World Health Organization

[62] TI Georgia (2008) *Promoting Civil Society Monitoring of Secondary Healthcare Reform*

urgent services only and just one the fifteen or twenty beds is equipped for more comprehensive care, this might not be the case. This will lead to a situation where people in need of less lucrative types of services are left without local access in the absence of proper regulations. The lack of regulation along with the focus on profitability is almost bound to narrow the range of services that hospitals will provide.[63] Furthermore, there is no guarantee that facilities purchased by investors will function as hospitals after 7 years.

The Position of Doctors

The position of doctors seems to be unfavorable. Their salary is often below the acceptable minimum, and there is no protection of their rights. Salaries have always been low for medical staff in Georgia – especially in the regions – and the situation does not appear to be improving, which has significant negative consequences for the profession. The weakness of the professional union and the low salary are not only a risk for corruption, but also they pose serious threats to the availability of specialists who choose to work in countries where the conditions are better.[64]

Salary

The monthly salary for a surgeon in the region varies between 150 and 300 Lari. In Tbilisi, the salary can be significantly higher, but only for a minority of surgeons. A doctor told us that, while the hospital charged 1700 Lari on average for the surgeries he does, he only received 160 Lari as his last salary.[65] The nurses in a hospital in Chiatura told us that they had not received their salary for months. We furthermore talked to the head surgeon of a regional hospital for who the new management refused to sign a contract with, although he was told they wanted to keep him.[66] Because of this he can be fired at any time and doesn't have a fixed salary. Several of our respondents have mentioned that the corruption in hospitals in previous years often was a consequence of the low salaries doctors received.[67] It has been furthermore mentioned by doctors they are thinking of moving to a country where the profession is more respected.

Labour Rights

Doctor's rights are not protected and doctors are unable to pursue these rights through collaboration with the professional union. Joni Janashia, President of the Health, Pharmaceutical and Social Care Workers Independent Trade Union of Georgia, told us that all the attempts to work together with the new hospitals to negotiate basic right for medical staff failed.[68]

Janashia states that in cases where insurance companies seemed to be willing to agree upon a minimum of cooperation and allow their employees to join the trade union, he experienced opposition from the government.

"Some of the insurance companies started negotiating with us, and we even came to the point were we had a breakthrough and were about to sign a collective agreement with two companies. However, just

[63] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers, Independent Trade Union of Georgia

[64] Merab Lomia physician and medical reviewer.

[65] Surgeon in Chiatura

[66] Respondents medical staff of a hospital that preferred to stay anonymous

[67] Ibidem footnote 68, 69

[68] Joni Janashia President of the Health, Pharmaceutical and Social Care Workers Independent Trade Union of Georgia

two or three days before the signing of the collective agreement, we got a call from the representative of the insurance company, informing us that they've had a call from the Ministry of Health and Social Care of Georgia and they were told not have any kind of association and negotiations with trade unions. The story of cooperation and negotiations was totally finished after this[69]*."*

Merab Lomia, a Georgian Doctor working as a physician in the U.K., told us:

"If I would make one third of the money in Georgia that I make now and I would have the same opportunities and respect, I would come back tomorrow. However, this is not the case and it seems very unlikely to be the case in the future."[70]

Mediation Service

The MoH is in the process of finalizing the establishment of the Health Insurance Mediation Service (HIM), which functions as a dispute resolution board between patients, insurers and medical facilities.[71] There is a plan to give the mediation service more responsibilities and possibilities to impose financial sanctions on insurers or medical institutions in case of a violation of a patient's right. However, such mechanisms have not been incorporated into the law yet. The main role of the MoH is to provide arbitration service between patients, insurers and medical providers.

The Service can only come into action when a patient files a complaint through an application form when he/she feels his/her rights have been violated. Based on the complaint, the mediation service is able to assess if the complaint violates the contract a patient has with his/her insurer or the medical facility and assess whether the contract has been violated. HIM can also do an assessment of the quality of the service provided by the facility.

The website also says that the mediation service came into action when doctors did not receive their salary after filing a complaint.[72] The mediation service reports that after conversations with the company that owned the facility, arrangements were made to pay the doctors.

The development of the mediation service is the first step that offers a way for patients to fight for their rights when they are violated. There are, however, doubts if this service will really have the ability to research all the complaints and whether it has the right tools to enforce its decisions.

Inquiries regarding patient rights violations or poor quality of services in a hospital can currently only launched on the basis of patient complaints. A more efficient functioning of the service could be based on more regular visits where the quality is checked and where patients are asked for their assessment of their insurer or medical facility. While there have been efforts made to make the mediation service known to people, our survey shows that only 50% of the insured people are aware of its existence.[73] A significant part of the patients will, therefore, never contact the HIM service. Presently, protection of patient rights is fully transferred to patients that are in the most cases not aware of their rights and the

[69] Ibidem footnote 72

[70] Merab Lomia physician and medical reviewer.

[71] Website Health Insurance Mediation Service: http://www.him.ge/

[72] Website Health Insurance Mediation Service: http://www.him.ge/

[73] TIG Survey experience of beneficiaries of social insurance.

existence of the HIM service. Furthermore, the current market environment does not create the incentives for companies to ensure the quality of services or the protection of patient rights.

Presently, the possibilities of the Service to act when a complaint is filed by a patient are very weak and mainly entail negotiation between the parties involved. The Agency is not able to impose financial – or other - sanctions and with that it remains a weak agency that lacks the possibilities to interfere in a situation. The effectiveness of its decisions depends solely on the willingness of the insurer or the hospital to comply.[74]

Conclusion

This report suggests that the goals of the new health care policy -- to supply accessible and affordable health care with a high quality of services, and to protect patient rights -- are unlikely to be achieved through the current policy. The total privatization of the hospital sector, along with the lack of effective legislative arrangements in an environment that is characterized by vertical integration of companies in all the sectors (and lack of protection of the rights of patients and medical staff), is unlikely to lead to long term improvement in health care. On top of that, there are no certainties that all the basic services will still be provided or that the majority of the new hospitals will still operate by 2020.

Under the current policy, competition should be the main drive for better efficiency, which is assumed to lead to high quality and well accessible health care. Competition, however, is unlikely to occur as the new hospitals built in the regions are in most cases owned by the same company that provides social insurance in a whole region. Due to this situation, people with social insurance are unable to choose the hospital they want to be treated in. Due to the geographical exclusiveness where one company owns all the new hospitals in a region and the neighboring regions, there does not seem to be a necessity for hospitals to compete with each other as they are simply the only providers of health care.

The lack of investment in 2008 heavily influenced the reform process and led to the large scale involvement of insurance companies in the sector. The evidence suggests that the change to the regional social insurance system has been purposely created in order to build hospitals and to compensate the insurance companies for their efforts. Currently, more than 40% of all the hospitals are built by insurance companies and 95% of the regions are provided with social insurance by one company which also built all the new hospitals there.

This creates vertical integration that obstructs competition and leads to serious cases of conflicts of interest, which then causes various problems in terms of the quality and accessibility of health care. Services are becoming increasingly expensive for uninsured patients as they are used as the profit centre of the hospitals owned by insurance companies. This leads to a situation where many people that do not qualify for social insurance will be unable to pay for their services. Social insurance companies send their beneficiaries to their own hospitals so that they can keep the prices as low as possible, taking away their ability to choose. This results in insurance companies trying to save money by offering their beneficiaries the cheapest service or by not properly diagnosing in their own hospitals.

[74] Webstie: http://him.ge/index.php?page=3&lang=geo

The vertical integration that occurred is most prominent in the case of pharmaceutical companies that acquire a strong position in all health care sectors. Which leads to possible conflicts of interest with regard to prescription practices .

A major subject of concern is the position and the bad conditions for the medical staff. The fact that doctors, surgeons and nurses are underpaid, their rights are not protected, and they are discouraged from joining labour unions, creates a serious risk for the sustainability of the medical workforce in Georgia.

The Mediation Service was created to deal with the problems that occur, but it generally fails to do so due to its lack of resources. Although it was announced that the body will have the power to impose financial sanctions, it is totally unclear when this will happen, in what circumstances the financial sanctions will be used, and what the financial sanctions will be. Furthermore, the system relies on the complaints filed by patients and does not provide for regular quality and administrative controls. Complaints might easily be bought off by the company when a patient threatens to file one. Also, patients might be afraid to file a complaint, or they even may not be aware of the existence of the service. The HIM service is thus currently unable to ensure sufficient protection of patients' and employees' rights or a consistent quality of health care.

Hospital owners are obliged to keep the profile of a medical institution with the number of beds and services as defined in the tender contracts for seven years. It is assumed that they will function as hospitals that provide all the services, because it is believed that this will be profitable due to a consistent demand for health care provisions. This is, however, not certain, and most health care specialists believe the small hospitals with less than 50 beds are very unlikely to be profitable. If hospitals are not profitable, it is unlikely that companies will continue running them. At best, the owners might retain some limited services, but cancel others that are not profitable.

The lack of guarantees creates major risks for the sustainability and quality of the average hospital in Georgia. The sometimes very unclear information about the real ownership of hospitals raises questions about the long-term commitment of investors in Georgian health care, as well as their experience and expertise. The current situation, along with the lack of institutional guarantees that hospitals will be sustained for a longer period of time, creates serious risks for the accessibility, quality and availability of health care.