Promoting the Monitoring of the Hospital Sector Reform

The government that came to power after the Rose Revolution of 2003 set the rehabilitation of the hospital sector as one of its major goals in the process of reforming the healthcare system. In January 2007, the Prime Minister, Zurab Noghaideli, signed the **Master Plan for the Development of the Hospital Sector**, according to which, after the implementation of the plan (in three years), there will be **100 new hospitals with 7,800 beds** (4,185 beds in Tbilisi and 3,615 in the regions) in Georgia.[1]

The essence of the program of rehabilitation of the hospital sector is that **all hospitals that are owned and funded by the State should be transferred into private property through privatization**. The authorities deemed that by doing so they would help attract private investments to the sector, increase competition among hospitals, and, accordingly, improve the quality of medical services provided by them.

According to the privatization plan, **new hospitals should be distributed geographically in a manner that will ensure that 80% of the population can access medical services in 30 minutes.**

This publication contains an analysis of the major goals of the program of rehabilitation of the hospital sector, the ways of its implementation, the process of privatization of hospitals, and its expected results. The analysis is based on the practical experience and views of representatives of the medical field – heads of hospitals and doctors.

The process of privatization

Administration

The administration of the process of privatization of hospitals was assigned to the Ministry of Economic Development, because it is the agency that is generally in charge of the privatization

[1] The geographic distribution of hospitals and the optimal number of hospital beds were determined by the Ministry of Labor, Health and Social Affairs of Georgia.

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process in Georgia and the Ministry of Labor, Health and Social Affairs is not involved in this process.

The State does not receive monetary funds from privatization. It transfers areas where state-owned hospitals are located to investors and, in return, demands that they build and equip new hospitals (1) in the same area or (2) in another area specially allocated by the State for this purpose.[2]

Investors take the obligation to operate new or rehabilitated hospitals during at least seven years; after seven years, they will be given the right to use the buildings/structures of the hospitals and the respective areas for other purposes.

State-owned hospitals and additional areas where new hospitals are supposed to be built are transferred to investors as unified packages. These packages usually include one or more hospitals in Tbilisi – which is particularly attractive for investors – and areas in the regions which are allocated for building new hospitals. According to the authorities, by this method they contribute to the construction of new hospitals in relatively less developed regions.

Criteria for tenders

The terms of tenders announced and the criteria of selection of investors were being improved in stages. In the first four tenders (these tenders were conducted in the interval between January 11 and March 30, 2007), the only criterion was the number of hospital beds offered by investors – the tenders were won by those investors that offered the government the highest number of hospital beds (regardless of the financial resources they were going to invest in these beds). It should also be noted that the criteria only became known after the tenders had been completed rather than at the time of their announcement. Investors didn't know beforehand on what basis the winner would be selected.

Selection of winners on the basis of the number of hospital beds directly contradicted one of the main goals of rehabilitation of the hospital sector – optimization of the number of hospital beds and, accordingly, more rational use of financial resources and increasing the effectiveness of the healthcare system.

At the time of announcement of the fifth tender, the government presented more detailed criteria for the selection of investors. Two new criteria – a bank guarantee (a document saying what sum of money the investor has on its bank account) and time frames for completion of construction – were added to the number of hospital beds, which had been the only criterion up to that point.

[2] The decisions on where to build new hospitals are made by the State, not by investors.

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As explained by the Ministry of Economic Development, the requirement of a bank guarantee was aimed at providing the government with a guarantee that the investors taking part in the tender really had sufficient financial resources to fulfill the obligations they were undertaking (to renovate/build and equip hospitals).

In this case, it would have been recommended for the government to require investors to submit bank guarantees for the funds that would be necessary for fulfilling the obligations they were undertaking. In fact, investors were selected on the basis of bank guarantees for maximum amounts. Some investors submitted bank guarantees for sums that were 22 or 25 times as much as necessary, and, consequently, won the competitions, regardless of the fact that **a high bank guarantee, naturally, does not mean that the investor will invest the entire funds in the construction and equipment of a hospital.**

As for the second new criterion – the time frame for completion of construction, according to European standards, construction and full equipment of a new hospital takes about five or six years. Due to the fact that the authorities put an emphasis on fast completion of construction when they announced tenders, a part of investors shifted their attention to time frames of construction and, consequently, a number of more important factors received secondary attention.

In the sixth and seventh tenders, additional conditions – such as retention/renewal of existing departments in privatized hospitals, acquisition of various medical equipment, demolition/dismantling of certain buildings/structures, and abolition of collective residences of IDPs existing in privatized hospitals – appeared for the first time.

Completed and ongoing projects

At this stage, 15 projects of the hospital sector reform have been elaborated. As part of these projects, 193 hospitals – 18 of them in Tbilisi and 175 in the regions – have been offered for privatization. As of February 2008, the State had concluded three privatization contracts – those for projects no. 1, no. 5, and no. 8.

Project no. 1 includes hospitals in Zugdidi and the Institute for Scientific Research on Hematology and Transfusion. According to the contract that has been signed, the investor is obliged to build a general hospital with a capacity of 100 beds in Digomi, to renovate several hospitals in Zugdidi, and to create a blood bank.

Project no. 5 includes M. Tsinamdzgvrishvili Institute for Cardiac Research LLC, Clinical Hospital No. 4 of Tbilisi LLC, M. Guramishvili Pediatric Clinic LLC, Obstetrics House of Tbilisi LLC, and Cardiology Clinic LLC. The official winner in this project is Bloc Georgia. The investor is obliged to build a general hospital with the capacity of 190 beds in the Sanzona district (within 17 months).

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The contract specifies the medical services that the new hospital is supposed to provide and the types of equipment it should have. The main criteria for selecting the investor were the time frame for completing the construction and the investor's bank guarantee.

Project no. 8 includes the National Center for Ophthalmology and Neurology, Shalva Koridze House of Obstetrics, and the Center for Plastic Surgery. The official winner of the project is Unimsheni. The main criteria used for the selection of the investor were bank guarantees and time frames for completing the construction.

Assessment of the process of privatization of the hospital sector by the medical community

In order to learn about the assessments and recommendations of various interest groups about the processes underway in the healthcare system, TI Georgia has conducted a study involving representatives of Georgian and international civil society organizations, the authorities, and the medical community. From the medical community, the organization interviewed managers and doctors of hospitals. In total, we interviewed 64 employees of 13 hospitals in Tbilisi (there are 18 hospitals in Tbilisi altogether).

The respondents' level of awareness of healthcare reforms before and after 2004

During the interviews, representatives of TI Georgia asked questions about the medical personnel's awareness of the reforms in the healthcare sector which had taken place before and after the change of power in 2004. As demonstrated by the study, **heads and employees of hospitals were far more informed of processes that had taken place before 2004 than of reforms that were planned and implemented after 2004.** Some of them were more or less informed of issues related to the privatization of hospitals, though they knew almost nothing about changes that had taken place in other areas of healthcare.

Main sources of information about medical reforms after 2004

TI Georgia asked those respondents who had said they were informed of the reforms underway in the hospital sector to name their main sources of information. The respondents named media outlets, hospital administrations, and the Ministry of Labor, Health and Social Affairs as such sources. They rarely named the Ministry of Economic Development (12.5%) and investors involved in the process of privatization (3%) as sources of information about this process. Considering that it is precisely the Ministry of Economic Development and investors that play a particularly important role in the privatization process, the respondents were, first of all, interested in receiving detailed information from them. They are particularly interested in meeting with investors who participate in tenders, in order to receive full information about the investors' goals in connection with the hospital sector and about the method and means by which they propose to achieve these goals.

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Major goals and objectives of the Master Plan for the Development of the Hospital Sector in the opinion of medical personnel

In order to explore the medical community's attitude to the goals of the Master Plan for the Development of the Hospital Sector, TI Georgia asked the respondents to name issues to which the government, in their opinion, attaches the most priority in this process.

In the opinion of the vast majority of the respondents, the government's priorities are as follows: optimization of the hospital sector, optimization of medical personnel, and attracting private investments to the sector. A large part of the respondents also noted that this plan is less conducive to physical and geographic accessibility of medical services, optimization of the number of hospital beds, improvement of medical equipment, and renewal of the infrastructure of the hospital sector.

The respondents' assessment of the process of privatization: its goals, transparency, effectiveness, and legal aspects

In general, considering various aspects, only 18% of the respondents gave a positive assessment to the privatization process; the assessment of 66% was clearly negative.

The most problematic issue named by the respondents was the criteria of tenders, with 80% of them second with negative assessment by 75% of the respondents. In the opinion of the majority of those thinking that the criteria used today are ineffective. Insufficient transparency of the process came interviewed, the government pays the most attention to bank guarantees of investors taking part in the tenders and to the time frames for completion of construction, while extremely important issues of investors' experience in the field of healthcare and existence of detailed plans for the construction, equipment, and functioning of hospitals are completely ignored.

In the opinion of the medical community, it would be better to select investors on the basis of detailed business plans submitted by them. These plans should prescribe the system of management of hospitals, the qualification requirements of medical personnel, the scheme for regulating prices, service standards, etc. on the basis of the investors' experience in the medical sector and ensuring affordability of prices.

Time frames for the privatization process and for the construction of hospitals

One of the main criteria by which the government selects investors is the time frames for the construction of hospitals. Initially, the government planned to complete the constructions in two years, although later, after taking account of recommendations of international organizations, it prolonged this time frame to three years.

In the opinion of the medical community we have interviewed, the time frames of privatization and construction are, generally, less important. They are more interested in how the processes will

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develop after privatization and completion of construction and whether the quality and affordability of medical services will be ensured.

Sustainability of new hospitals and investors' obligation to provide medical services in the long run

According to the terms of the tendered contracts, investors are obliged to operate newly built (renovated) hospitals for at least seven years. After the passage of this period, they are entitled to convert the hospitals into any type of other institution. In connection with this issue, there arises a question: **What will motivate the investors to continue providing medical services and not to convert the hospitals into any type of other institutions after the passage of the seven-year period?** In a large part of tenders that have been held thus far, the authorities gave priority to developers and pharmaceutical companies. Naturally, development companies have less experience in the medical field, and, at this stage, it's difficult to say whether they are interested in operating in this sector in the long run. The government presumes that this issue will be regulated on the basis of the principles of market economy and that after the construction and equipment of high-quality hospitals, these hospitals will turn into profitable businesses and, accordingly, the investors will themselves be interested in retaining their profile after the passage of seven years.

However, if the authorities fail to plan the ongoing processes correctly and do not subject this sector to proper regulation, investors might find it difficult to turn the hospitals into well-functioning, profitable businesses. Today, it remains unknown how the damage will be compensated in this case and who will take the responsibility for providing the population of Georgia with quality medical services.

A large part of those interviewed by TI Georgia are interested in how the processes will develop after the completion of privatization and the passage of the seven-year period. They have doubts that the hospitals may not be profitable, especially those located in the regions (except for regional centers), where new hospitals will be equipped with only 15-25 beds, according to the Master Plan. In addition, in the respondents' opinion, **investors will put more emphasis on more profitable medical services to maximize profits, and this will gradually decrease the share of less profitable but vital services** (here we mean services related to various chronic diseases and cancers, diseases related to mental problems, etc.), which may ultimately result in complete disappearance of these types of services.

Availability of medical services after the process of privatization

The respondents named **possible increases in prices after the privatization** as one of the problems related to the transfer of state-owned hospitals in Tbilisi and the regions to the private sector. Concern over this likelihood was expressed by 90% of the respondents. The respondents expressed differing opinions on how to avoid increases in prices of medical services resulting from the

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privatization. Some of them think that price hikes should be balanced by increasing of funding of medical services for socially vulnerable groups by the State. Others believe that the decisive role in the resolution of the problem should be played by health insurance system. Some respondents said that new management of the hospitals should be made obliged to develop business plans and economic projections that will make it possible to avoid price hikes as much as possible. Several respondents emphasized that the authorities should play no role in the regulation of the problem of price increases; in their opinion, this problem should be regulated on the basis of the principles of market economy.

Mechanisms for ensuring the quality of medical services

The State's participation in the regulation of the medical sector and its performance of the 'role of supervisor' is considered as one of the major elements of provision of medical services around the world.[3] **In general, the healthcare sector is one of the most regulated sectors in all countries, including developed ones.**

In the opinion of the medical personnel we interviewed, in order to ensure the proper quality of medical services, it is necessary to conduct licensing of hospitals correctly, establish the standards of mandatory medical equipment (what kind of equipment a hospital must have in order to provide quality service), conduct verifications of medicines, conduct certification exams for medical personnel, etc. The respondents believe that the Georgian authorities should take responsibility for the functioning of the healthcare system. In their opinion, the State should determine standards and guidelines/directives regarding resources of hospitals (infrastructure), medical personnel (human resources), and scientific approach (intellectual capital).

At this stage, the program of privatization of hospitals does not contain any provisions on monitoring of services provided by new/renewed institutions.

Conclusions and Recommendations

Ensuring the involvement of important stakeholders in the process of rehabilitation of the hospital sector and increasing the transparency of the process

The privatization of the hospital sector is an important part of the healthcare reform. Accordingly, the State should not view this process as an economic process alone, the responsibility for which only lies on the Ministry of Economic Development, an agency responsible for economic processes. This process should involve the Ministry of Labor, Health and Social Affairs and the medical

[3] The Economics of Public and Private Roles in Health Care: Insights from Institutional Economics and Organizational Theory. Alexander S. Preker and April Harding.

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community, which is going to create necessary pre-conditions for developing correct criteria for the selection of investors and, accordingly, for making sure that they are selected correctly and the process of privatization yields results provided for by the Master Plan for the Development of the Hospital Sector.

As a minimum, representatives of the medical field should be given an opportunity to meet with investors taking part in tenders, to familiarize themselves with their proposals and projects submitted by them, and to share their views about the strengths and weaknesses of the submitted projects with the Ministries of Economic Development and of Labor, Health and Social Affairs.

Improvement of the criteria for selecting investors

The process of privatization of hospitals requires clearer criteria. They should be formulated with the participation of the Ministry of Health and other stakeholders. More attention should be paid to investors' experience in this sector and to proposed plans for the construction, development, and management of hospitals. Eighty percent of the respondents expressed concern about the selected investors' lack of experience in this sector and about the lack of details in the submitted proposals.

It is necessary to use the established criteria more consistently, in order to ensure more effectiveness, transparency, and fairness of the privatization process.

The issue of profitableness of regional hospitals should be reexamined. Nowadays, considering the small number of hospital beds and the present socio-economic situation in the regions, there are doubts that the new/renovated hospitals might have to work at a loss. This issue is especially problematic due to the fact that after seven years the owners will no longer be obliged to retain the hospitals. They will be fully entitled to convert the hospitals into other types of more profitable businesses. As a result, quite a large part of the population may be left without medical services.

Improvement of relations among responsible structures and of relations of these structures with the public

Despite the fact that representatives of the medical community mainly give a positive assessment to the goals of the hospital system reform, they have a negative attitude to the methods and process of implementation of these goals. The medical community is not sufficiently informed of the process of privatization of the hospital sector. The heads and employees of hospitals expressed discontent with the unorganized nature of the relations between them and the Ministries of Economic Development and of Labor, Health and Social Affairs. The majority of them named media outlets as the main sources of information about privatization, whereas media reports on this process are usually superficial and inconsistent.

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It is necessary to further strengthen bilateral relations between representatives of the medical field and government agencies involved in the rehabilitation of the hospital sector. This will also help increase the transparency of this process. Strengthening the relations between the Ministry of Labor, Health and Social Affairs and representatives of the hospital sector should include not only bilateral meetings and consultations but also active mutual cooperation between the meetings. Issues discussed and agreements reached at the meetings should have a follow-through. The Ministry should periodically release information on what steps it is planning to take to resolve problems raised by medical personnel and how these steps are being implemented. According to the majority of the respondents of TI Georgia's study, the Ministry has held several meetings with them in the recent years. The participants of these meetings discussed a number of important issues, and the Ministry also made a lot of promises, though the promises remained unfulfilled. Finally, the meetings assumed a formal character and gradually ceased to be held.

Effective regulation of the healthcare sector

The healthcare sector is distinguished by the highest regulation around the world, including in countries with the most liberal state policy. This sector is directly related to human life and, accordingly, it particularly requires effective mechanisms of quality regulation and control (in the form of establishment of various standards and minimum requirements and exercise of control on their fulfillment). The authorities are directly obliged to ensure the existence of an effective, high-quality, and affordable healthcare system in the country. Regulation is also important for retaining less profitable but vital types of medical services and for ensuring that the market does not offer the most profitable services alone. The authorities also bear certain responsibility for ensuring that the transfer of the entire healthcare sector into private hands does not cause such increase of prices that will make medical services unaffordable for a large part of the population.

Analysis of results of privatization ad fulfillment of contractual terms

It is necessary that contracts on privatization prescribe in more detail the obligations of the parties, criteria of assessment of work performed (for example, the occupancy rate of hospital beds, throughput of patients, financial affordability, infrastructure and technical equipment, qualifications of medical personnel, etc.), and sanctions that will be applied in the event of violation of contractual terms. It is also important to determine (a) how the State will conduct the monitoring of the fulfillment of the contracts, (b) which governmental and non-governmental structures will be involved in this process, (c) what will be the role of each of them, and (d) how the transparency of the process will be ensured.

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The analysis was prepared in the framework of the 'Promoting the Monitoring of the Hospital Sector Reform' project, which is funded by Eurasia Partnership Foundation. The project aimed to assess the process of privatization underway in this sector and to better inform the medical community and the general public about it. For this purpose, TI Georgia conducted monitoring of the privatization of the hospital sector, studied contracts concluded thus far between private investors and the State, and conducted a survey of medical personnel and heads of hospitals regarding issues related to the ongoing reform.

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