World Bank Health Sector Assists Crisis-Hit Eastern Europe Countries

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Key Messages

- To mitigate the impact of the economic crisis, the World Bank is providing fiscal support to a number of Eastern European countries. In the health sector, these loan programs include technical assistance and policy dialogue for reforms.
- Health sector reforms are geared toward continued strengthening of the sector’s financial sustainability and increased efficiency in providing health care.
- The World Bank is recommending steps to safeguard essential health care for vulnerable populations. Services by health care providers who serve the poor disproportionately should be protected from cuts in health spending, as should other primary health care services.

In an environment characterized by growing financing constraints, the health sectors of Eastern European countries are under increased pressure to perform efficiently. Policy-makers are challenged to ensure access to health care and financial protection for vulnerable populations.

To mitigate the impact of the economic crisis on government budgets, sector spending and household income, the World Bank is providing fiscal support to a number of Eastern European countries. In the health sector, these loan programs include technical assistance and policy dialogue for reforms.

This Knowledge Brief\(^1\) describes how the World Bank is collaborating in health sector reform with four countries—Hungary, Latvia, Poland, and Romania. It focuses on issues related to the economic crisis that threaten the financial sustainability of the health sectors in these countries and suggests reforms to mitigate the impact of the crisis.

Working To Improve Health Care with Reduced Resources in Hungary

Hungary was one of the first emerging economies to be affected by the financial crisis. When overall risk tolerance declined, the large liabilities Hungary had accumulated in the first half of the decade led to it being perceived as a high-risk country, despite efforts by the Government to restore investor’s confidence. The crisis impacted Hungary’s financial sector, as well as its macroeconomic prospects.

Consequently, the Government of Hungary (GOH) requested the World Bank for a loan, as part of a multilateral funding package agreed upon with the IMF and the European Commission, to finance potential gaps. As part of the loan agreement with the World Bank, the GOH will support several policy measures to reduce fiscal spending and long-term indebtedness, while ensuring that health services are well-targeted and provided in an efficient way.

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\(^1\) This Knowledge Brief draws heavily on documents prepared to support World Bank loan agreements with the countries covered by this Brief.
A recent OECD report indicates that Hungary is among the OECD countries with the least efficient health sectors. Hungary’s total health expenditure increased from 7.0 to 8.3 percent of GDP from 2000 to 2006, rather high by the European Union (EU) standards. After running up deficits in the first half of the decade, the country’s health insurance fund achieved a first-time surplus in 2007, with mandatory transfers from the state budget on behalf of pensioners and other non-contributing persons, as well as strict expenditure controls and a reduction in hospital beds. There is limited scope to enhance insurance revenues, given that the contribution rate is already relatively high at 12.5 percent of wages. Growing unemployment and a wage freeze will reduce contribution revenues for the insurer. A recent effort to introduce co-payments was abolished in April 2008 following a popular referendum. The current challenge for the Government is to improve the health of Hungarians (which is poor in comparison with other EU countries) while avoiding further deficits.

The health sector’s efficiency could be improved by advancing reforms in hospitals and outpatient care. Hungary has one of the highest outpatient visit rates and hospital admission rates in the EU. Overcapacities in the hospital sector have contributed to the sector’s indebtedness. While the bed to population ratio was reduced in 2006, Hungary still reports hospital bed numbers that are well above the European average (Figure 1).

The World Bank program supports health sector reforms geared toward continued strengthening of the insurer’s financial sustainability and increased efficiency in providing health care. The Government is drafting a decree to strengthen the role of general practitioners, with the objective of reducing the number of specialist visits and hospital admissions. Further actions include moving hospitals towards a corporate management structure which should facilitate more efficient bed management, and introducing independent hospital audits. Centralized procurement of hospital goods and services has also been recommended to help improve efficiency and reduce administrative costs.

Longer-term and ongoing measures include efforts to strengthen the purchasing power of the health insurance fund through changes such as consolidation of fund branches. Hungary is also working towards improving its provider payment system by instituting rewards for providers based on specific performance criteria; this approach should help improve the quality of care and lead to better health outcomes.

Protecting Health Care for the Poor in Latvia While Making Large Health Sector Cuts

Latvia’s economy has been also hit hard by the financial crisis. Following rapid economic growth in the middle years of the present decade, the country suffered from the worst economic performance in the EU during the final quarter of 2008, contributing to Government turnover in late February 2009.

During the past years, Latvia had introduced some reforms in the health sector. However, these reforms progressed at a much slower pace than those in other new EU member states. As a result, the Latvian health sector is still characterized by overcapacities, low levels of productivity, poor health outcomes, and underfunding. Two-thirds of Latvia’s public financing for health is allocated to hospital care, a sector affected by oversupply (Figure 1) and inefficiencies. There is a correspondingly high level of hospital admissions and one of the longest average lengths of hospital stay among European countries. Nevertheless, hospital bed occupancy rates are only about 66 percent. Inefficiencies and budget ceilings have led to deficits in some hospitals.

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**Figure 1: Hospital Beds per 100,000 Population, 2007**

Source: WHO, Health for All Database. [http://www.euro.who.int/hfadb](http://www.euro.who.int/hfadb)

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2 OECD (2008), *Health Status Determinants: Lifestyle, Environment, Health Care Resources And Efficiency.*
The Government of Latvia has started implementing recommendations from the Public Expenditure Review conducted in collaboration with the World Bank in 2008. These steps aim to reform service provision and improve outcomes, with a particular focus on increasing hospital efficiency, including reductions in the number of beds and a requirement that hospital business plans be developed.

The economic crisis and resulting fiscal pressure have affected the health sector, galvanizing the Government into introducing some short-term mitigating measures. Reimbursement rates to providers were cut in early 2009. Beginning February 1, 2009, patient co-payments were increased in an effort to reduce the use of services. However, essential services like immunization and maternity care are exempt from co-payments. It will be important to monitor carefully the impact of these short-term measures on access, particularly as out-of-pocket payments were already relatively high and the country has had a problem with access to needed services, mostly for lower-income groups.

As part of a loan program in progress, the World Bank is working with the Latvian government on a plan to ensure efficient provision of health services while minimizing the losses associated with necessary cuts in spending. The plan includes: reducing salaries and cutting staff at the Ministry and subordinate agencies; reducing hospital beds; shifting inpatient care to less costly outpatient and day care; moving more specialist services to the negative list of health care not covered by insurance; and reducing utilization by raising co-payments further while limiting the large group that qualifies for reduced co-payments to the single group of children under age 18.

Since all of these steps, particularly the planned co-payment increase, carry the potential of having a negative impact on health care (especially for the poor), the World Bank is recommending steps to safeguard essential care for vulnerable populations. Services by health care providers who serve the poor disproportionately should be protected from cuts, as should other primary health care services. Furthermore, pharmaceutical financing should be protected, as should emergency and ambulance services. Beyond this, loan funding from the World Bank will be used to help municipalities maintain subsidies to help poor households cover co-payments.

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**Administrative Reforms to Strengthen Poland’s Health Sector**

Thanks to a strong economic position at the start of the crisis, Poland is likely to be relatively less affected by a recession in Europe compared to other countries. Nevertheless, the deterioration in the external economic environment affects Poland. Economic growth in Poland has slowed dramatically, forcing the Government to focus on structural improvements and maintaining critical programs in the social sectors.

Poland has a relatively robust health insurance scheme that protects its citizens and is adequately financed. The scheme has run a surplus during recent years, providing some reserves that will be of assistance in the present downturn; only a prolonged and deep economic downturn is likely to result in serious financial difficulties. For 2009, the share of revenues allocated for disabilities has been reduced, providing a small additional fiscal boost in the face of likely shrinkage of social insurance contributions as the year progresses.

The World Bank and the Government of Poland have created a program that includes three lending operations and technical assistance to support reforms aimed at accelerating Poland’s convergence with EU living standards. The first of these loans supported policy actions to strengthen public financial management, increase participation in the labor market, and improve the environment for business. A second loan will continue to support those reform objectives, while also supporting structural improvements in the finance and provision of health, education and social protection services.

Poland’s government has agreed to a number of World Bank recommendations (that are linked to loan support) for strengthening its health sector. In order to address the consistent problem of debt accrual by hospitals, the Government should fully fund a new voluntary program to corporatize many hospitals and monitor those not subject to commercial law. This will help shift spending priorities in the medium-term. An improved accreditation and regulatory framework should be put in place to improve quality. Furthermore, the new discharge-based hospital payment system should help boost productivity and provide a database of information upon which efforts to improve hospital efficiency and quality of care can be built further. The World Bank
further recommends the Government develop and implement a discharge-based system for outpatient care.

Rationalizing Broadly Defined Health Benefits in Romania

The Romanian economy has also been critically affected by the global economic downturn. The current crisis has both domestic (fiscal policy) and foreign/external origins. The deteriorating macro-financial environment has created risks for financial stability. In this context, the World Bank has launched a three-part loan program to assist Romania in improving fiscal sustainability and public financial management in key sectors, including health.

Relative to other EU countries, public expenditure on health in Romania is low in terms of GDP share, although it increased from 2.9 percent of GDP in 1990 to 3.7 percent of GDP in 2007. Romania’s health care access and quality of care also lag behind other European countries, contributing to a life expectancy that is six years below the EU average. Romanian infant and maternal mortality rates are among the highest in the EU.

Romania relies on health insurance contributions and taxes for public financing of health services. Major challenges to fiscal sustainability include: a broadly defined benefits package with minimal formal co-payments and exemptions that are not linked with income, and reliance on contributions from only 25 percent of the insured.

Hospitals consume nearly half of all Romanian health expenditure, and hospitalization rates are high in comparison with international standards. The country has a large and poorly managed hospital infrastructure. Informal payments in the hospital sector are widespread. Hospital managers have very little of the autonomy needed to enact efficiency improvements. Following World Bank recommendations, a number of efforts to increase efficiency are being considered: reducing infrastructure, modifying payment methods to increase incentives to use primary care and to reward performance, etc.

Pharmaceuticals account for nearly a third of health expenditure. The World Bank has called for prescription and reimbursement policies to be revisited, and steps have been taken in 2009 to revise the pricing policy and promote the use of generic drugs. A new health technology assessment system needs to be developed to make decisions about coverage for new technology and drugs.

Romania has adopted legislation to increase revenues for health by taxing cigarettes, but further steps are needed to improve the country’s fiscal position. The World Bank recommends introducing new formal co-payment mechanisms to reduce informal payments, and developing and regulating the supplementary voluntary insurance market, in conjunction with efforts to rationalize the benefits package.

Conclusion

World Bank assistance to the affected European countries includes policy dialogue, technical assistance and loan support, to mitigate the impact of the economic crisis on the health sectors of these countries. While their reform contexts are unique, there are several common elements with respect to the steps these countries can take to help themselves, including increasing efficiency by reducing overcapacity in the hospital sector and reforming health administration, purchasing and management activities. At the same time, the World Bank is working with the countries in addressing longer-term policy challenges in health to better mitigate the impact of the current downturn. Precautions should be taken to ensure that the economic downturn does not exacerbate financial barriers to access for the poor and financial risks for those suffering from ill health, particularly in countries where out-of-pocket payments for health services paid by patients are significant.

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