

ANNEX 2 HEALTH CARE SYSTEM REFORM

The health care system has been named among the priorities in the Government’s SB 2016 and MTBF 2016-2018. Meanwhile, tight fiscal conditions and expenses that health care institutions have accumulated over the past decade and allow very little room for allocating funding for improving the population’s access to medical services and the delivery of effective services for those in need. The current model of health care is at a crossroads without a clear understanding of the underlying issues or a concrete vision as to what improvements additional funding could bring.

Latvia’s headline population health status indicators are low and amenable mortality rates among the working-age population are high. Life expectancy has increased throughout the EU, but the gap between the highest life expectancies and the lowest ones (including Latvia) has not fallen since 1990. This trend is indicative of a broader issue, and numerous international publications paint a troubling picture of the overall health status and state of the health care system in Latvia. For example, according to Eurostat data, in 2013 Latvia had the second lowest public funding for health care among member states of the EU (Chart A2.1).

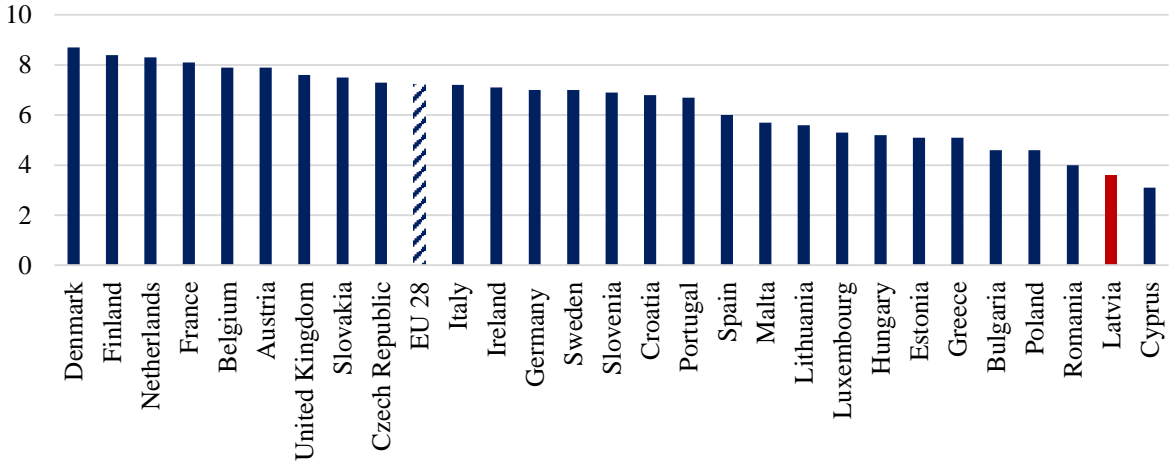


Chart A2.1 General Government Spending on Health in 2013 (% of GDP). Source: Eurostat.

What is more, this is not a recent phenomenon and illustrates a historical trend, even compared to the other Baltic States (Chart A2.2).

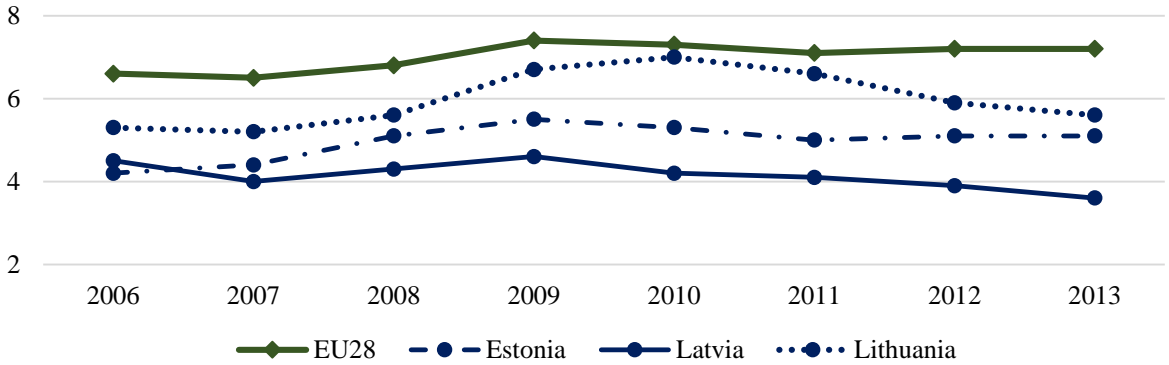


Chart A2.2 General Government Spending on Health Care in 2006-2013 (% of GDP). Source: Eurostat.

This is reflected in a corresponding low level of self-perceived health and a high level of self-reported unmet medical needs. Both of these indicators should be treated with caution due to the fact that they rely on self-assessment, but they do suggest a connection between the low level of available public funding and the overall health status of the Latvian population, especially if one takes into account the fact that a significant proportion of such unmet needs are due to the cost of medical services (Chart A2.3).

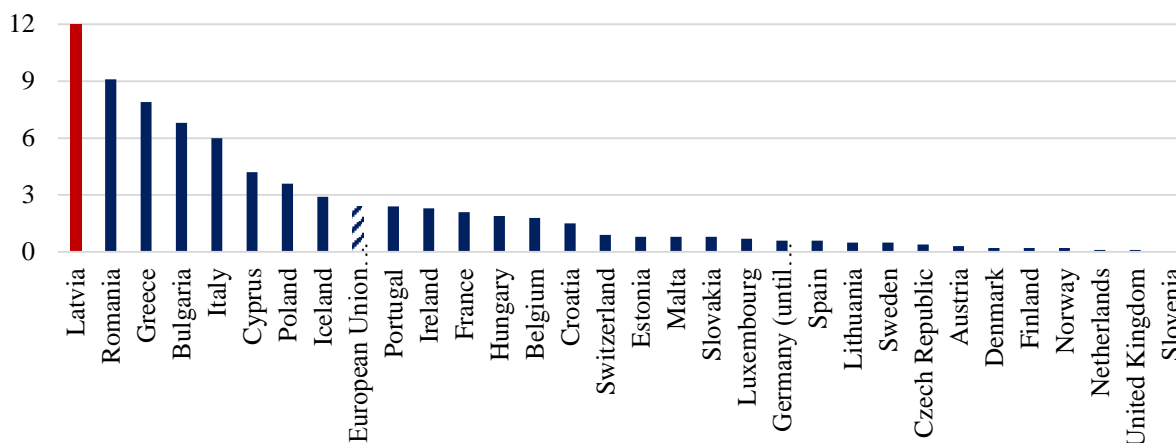


Chart A2.3 Self-reported Unmet Medical Needs due to Reasons of Cost in 2013. Source: Eurostat.

The above chart shows that Latvia has the highest proportion of expense-related unmet medical needs in the EU. Furthermore, OECD’s *Health at a Glance: 2014*¹ illustrates that Latvia performs poorly when it comes to overall health status, access to health care and quality of care, and suggests that the situation is equally stark in official health statistics. A likely cause of this problem is the fact that the Latvian health system suffers from low public financing and high out-of-pocket payments. Furthermore, the EC contends that “even though additional funds were made available in 2014 to improve the accessibility of healthcare services, this is unlikely to translate into significant improvements”².

This suggests a need for reforms in the health sector, and a number of initiatives proposed in Latvia’s *Stability programme 2015-2018* and *National Reform Programme* have been devoted to addressing long-standing issues in the provision of high quality health care.

In the *Stability Programme 2015-2018* in particular, the need for changes is justified on the grounds that it would decrease the loss of healthy (and productive) life years and the number of premature deaths in the long-term. In other words, the health of the population is viewed in the context of economic gains.

One should be cautious, however, of treating the low amount of available resources as the primary culprit for the current low level of headline population health status indicators and high amenable mortality³ rates. Of particular note are efficiency indicators, which suggest that one should not focus solely on the amount of available funding, as a number of issues specific to Latvia have to do with inefficiencies of the health care system. In other words, while the amount of funding available for the provision of public health care is an important factor, the way it is used and managed can be equally significant⁴. For example, a paper by OECD⁵ suggests that gains from a more efficient use of resources could be significant – about a 2 year increase in the average life expectancy. Likewise, the

¹ Health at a glance: Europe 2014. Available: http://ec.europa.eu/health/reports/docs/health_glance_2014_en.pdf, accessed on 11.09.2015.

² Country report: Latvia 2015. Available: http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_latvia_en.pdf, accessed on 11.09.2015.

³ Deaths that could have been avoided with timely access to health care.

⁴ Grigoli, F. & Kapsoli, J. Waste not, want not: The efficiency of health expenditure in emerging and developing economies, Available: <https://www.imf.org/external/pubs/ft/wp/2013/wp13187.pdf>, accessed on 11.09.2015.

⁵ Isabelle, J., Andre, C. and Nicq, C. Health care systems: Efficiency and institutions. OECD Economics Department Working Paper No. 769. Available: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1616546, accessed on 24.09.2015.

2015 edition of the *Ageing Report* ⁶ argues that the organisation of the health care system is one of a range of significant factors influencing public expenditure on health care.

A publication on the efficiency of health care systems suggests that Latvia performs poorly on efficiency scores⁷. Additionally, a study on the comparative efficiency of health systems suggests that Latvia could reap great benefits from emphasising primary and preventive care⁸. In other words, popularising healthy behaviours and lifestyles could reduce the strain on the health system and increase the number of healthy life years in a manner that is sustainable in the long term. In fact, the optimisation of the mix between preventive and curative care can provide further efficiency gains if additional funds are diverted for ambulatory care. This would contribute to identifying health issues in their early stages, bring down costs, reduce the time that patients spend in hospitals and, consequently, decrease the number of amenable deaths.

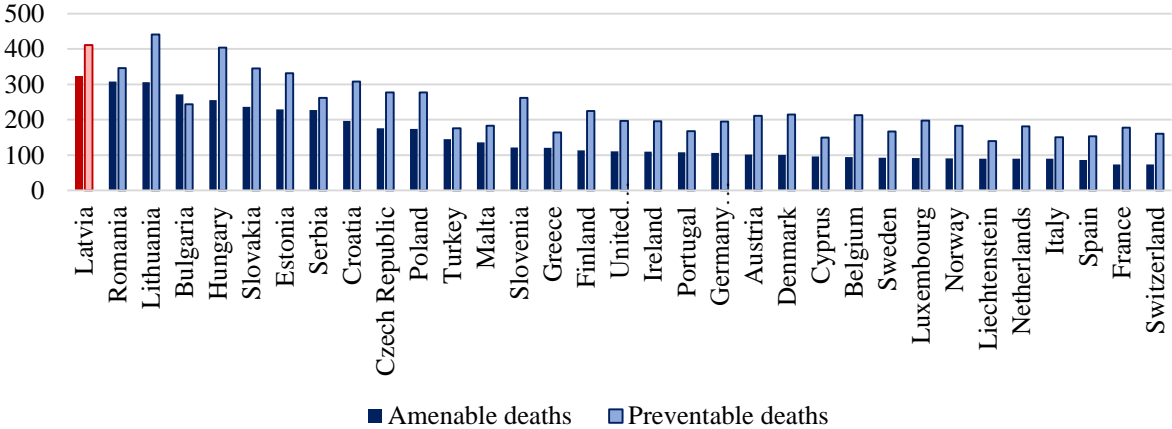


Chart A2.4 Amenable and Preventable Death Rates (per 100 000 inhabitants) in 2012. Source: Eurostat.

Lastly, a study on efficiency estimates of European health systems suggests that fraud and corruption are also significant sources of waste⁹. A similar assessment is evident in the most recent country report from the European Commission - the incidence of informal payments is high, and this is identified as a factor that increases health inequalities, as costs are already a significant barrier to healthcare access. The public frequently faces long waiting lines for health services the government has declared free of charge or available for a token co-payment.

Governance issues and wasteful investments in health care institutions has reduced public enthusiasm for additional funding for the provision public health care. Massive investments in modern equipment and improvement of premises in the past decade without due consideration of future demand for health services has been a burden for hospitals and diverts funding from providing medical services to those in need.

⁶ The 2015 ageing report. European economy series. March 2015. Available: http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee3_en.pdf, accessed on 11.09.2015.

⁷ Medeiros, J. and Schwierz, C. Efficiency estimates of health care systems. Economic Papers 549. Available: http://ec.europa.eu/economy_finance/publications/economic_paper/2015/pdf/ecp549_en.pdf, accessed on 11.09.2015.

⁸ Comparative efficiency of health systems, corrected for selected lifestyle factors, Available: http://ec.europa.eu/health/systems_performance_assessment/docs/2015_maceli_report_en.pdf, accessed on 11.09.2015.

⁹ Medeiros, J. and Schwierz, C. Efficiency estimates of health care systems. Economic Papers 549. Available: http://ec.europa.eu/economy_finance/publications/economic_paper/2015/pdf/ecp549_en.pdf, accessed on 11.09.2015.

The Council would encourage the authorities to conduct a study to identify inefficiencies in the delivery of health care and devise a strategy containing priority measures for improvement based on their impact on population health status indicators and amenable mortality rates,