LAD CASE STUDY

Building a New Health Insurance System for Georgia

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Introduction

Georgia is a small country located along the Black Sea in the Caucusus region, at the nexus of Europe, Western Asia, and the Middle East. With a population of 4.3 million, Georgia borders Russia in the north and east, as well as Turkey, Armenia, and Azerbaijan in the south. Formerly part of the Soviet Union, Georgia regained its independence in 1991. The post-independence period has seen Georgia undertake significant political and economic reforms.

The healthcare system has received much attention from successive governments in Tbilisi. A relatively poor country, Georgia has faced a number of challenges with respect to healthcare, including high out-of-pocket costs, expensive prescription drugs, and limited health service utilization.

The first effort at reforming the Georgian healthcare system took place in 1995 under the government of Eduard Shevardnadze. After public sector assistance collapsed subsequent to the fall of the Soviet Union, the Shevardnadze government extended nominally universal health care to all Georgian citizens. However, coverage was severely limited, with government-funded treatment available only for select conditions.

The next set of reforms to the Georgian healthcare system took place in the years after the 2003 Rose Revolution, which brought the pro-Western Mikheil Saakashvili to power in Tbilisi. Given the limited resources of the state, the Saakashvili government decided to overhaul the healthcare system by establishing the Medical Insurance Program (MIP) for the poor in 2007, which would reallocate healthcare funds in the budget to target the poorest 20% of the Georgian population. In essence, the government would pay premiums to private insurers on behalf of MIP beneficiaries, who would then be entitled to coverage through private firms rather than the government. Then,

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Michael Goldfien prepared this case under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.

in 2012, the Saakashvili government decided to extend a plan similar to MIP to other, in the words of former Minister of Labor, Health and Social Care Zurab Chiaberashvili, “socially vulnerable” groups, like pensioners, young children, and students.

However, as the campaign for the October 2012 parliamentary elections heats up, the opposition coalition, Georgian Dream, is considering reforms to the current healthcare system. Georgian Dream’s leader, the billionaire philanthropist Bidzina Ivanishvili, has indicated a preference for free universal health coverage provided by the state. Hoping to give this policy preference more definition, Ivanishvili and his team have asked several healthcare experts to advise them on healthcare reform.

One of those experts is Amiran Gamkrelidze, a physician and public health professional who held the post of Minister of Labour, Health and Social Affairs under former President Eduard Shevardnazde before being replaced following the Rose Revolution. Gamkrelidze, who spent time working at the World Health Organization, is a strong believer in universal health coverage, calling inequity in health care access “the number one problem” in global health. Nonetheless, he appreciates the fiscal constraints facing Georgia and understands the logic behind the Saakashvili government’s focus on targeting state funds for health care toward the poor.

Gamkrelidze believes there are three broad options that Georgian Dream could pursue if elected. First, they could maintain the current state healthcare system—which uses private insurers as an intermediary between the state and service providers—and look to gradually increase the segment of the population that receives government funded health insurance. Second, Georgian Dream could maintain the current system design, but quickly move to fund insurance for basic healthcare for Georgia’s uninsured, though with perhaps less generous benefits than for the poor and other “socially vulnerable” groups. Finally, Georgian Dream could overhaul the current state healthcare system, removing private insurers as intermediaries and offering benefits to all Georgian citizens.

Background: Healthcare in Georgia

With independence, Georgia inherited a Soviet-style *Semashko* health system, named after the Soviet Commissar of Public Health Nikolai Semashko. The *Semashko* system was based on the principle of free and universal healthcare, with central planning of medical and healthcare resources.[i] The state employed all healthcare workers, with private practice broadly forbidden. Further, the *Semashko* system was characterized by a reliance on in-patient care and limited use of primary care. While the system was universal, it also produced low-quality health treatments since there was no profit-based incentive to innovate.

The Post-Independence Period

Georgia experienced a crippling economic contraction during the first years of its independence, putting severe strain on the state budget. Consequently, the annual per capita government expenditure on health services dropped from roughly US$149 in 1990 to under US$1 over the next three years.[ii] By 1993, the Georgian government was looking to reform the health system.

Beginning in 1995, the Georgian government adopted a nominally universal social health insurance system. Notionally, an independent government body covered the costs of basic health services, with the State Health Fund (later the State Medical Insurance Company) pooling funds from payroll taxes and providing a Basic Benefits Package. In practice, however, the government health insurance system received inadequate funding and only covered a limited number of services and treatments. As a result, in 2004, the year that it was abandoned, Georgians paid around 80% of total health expenditures out-of-pocket.[iii]

The Rose Revolution and After

Despite gaining independence from the Soviet Union in 1991, the Georgian government retained many of the institutional features of its Soviet past. Rampant corruption plagued Georgia's slow-

moving bureaucracy and, following electoral fraud in the 2003 parliamentary elections, demonstrators took to the streets and eventually succeeded in forcing the resignation of President Eduard Shevardnadze. The nonviolent uprising, later named the Rose Revolution after the opposition figures who burst into a parliamentary session bearing roses, marked a turning point for the country. The pro-Western Mikheil Saakashvili, a leading figure in the Rose Revolution, won the presidential elections that followed and his United National Movement began to institute a major reform program aimed at shrinking the role of government and rooting out corruption.

In 2007, the Saakashvili government took on the health care system. The government sought to target the poor with state funding of healthcare rather than seek to provide universal, comprehensive coverage. Launched as a pilot in Tbilisi and the Imereti region in 2007 and expanded to cover the whole country a year later, the Medical Insurance Program (MIP)[iv] used proxy-means testing to identify the bottom 20% of the wealth distribution, providing a relatively robust benefits package that generally does not require copayments. Services, including primary care, emergency care, elective surgery, child delivery, and cancer treatment, is covered free of charge, though there are limits on use. The MIP program also covers essential medicines—drugs needed by the majority of the population—up to a limit, with a 50 percent user copayment.

According to former Minister Chiaberashvili, the reasoning behind MIP was that in a poor country, the "state cannot provide healthcare for everybody" and should thus focus on the "socially vulnerable." Minister Chiabershvili explained that, as he saw it, a universal model would represent a reallocation of limited state resources from the poor to the rich. Nonetheless, the all Georgians receive coverage for immunizations, dialysis, and treatment for HIV, infectious diseases, and mental health disorders.

Funded from the general budget, MIP was originally run by a state purchaser that would cover the cost of services rendered by health providers. However, beginning in 2008, the government began contracting out the purchasing function to private insurance companies. The government paid premiums to the private insurers on behalf of these poor individuals, with the private insurers taking on the financial risk. That is, the Social Services Agency, housed within the Ministry of Labor, Health, and Social Affairs (MoLHSA), paid premiums to private insurers, but

the state neither offered services nor directly compensated providers. The decision to use private insurers as an intermediary between the state and health service providers reflected an aversion to big government and a lack of trust that the state could efficiently manage MIP. In fact, hoping to limit corruption on the part of government officials, President Saakashvili sought to drastically reduce regulation of the healthcare sector and licensing requirements for medical professionals.

From 2008 to 2010, individual MIP enrollees selected their private insurer through a voucher system, giving some freedom of choice to beneficiaries. Then, in 2010, the government created a bidding process, whereby private insurers would compete for the rights to serve as the sole purchaser of health services within specific geographical regions of the country. Many people complained that this change reduced choice for consumers and might, because there would be no in-region competition, reduce the incentive for private insurers to treat their customers fairly. However, the government felt that under the voucher system, private insurers devoted too many resources to advertising because acquiring vouchers was so financially valuable.

Perhaps more importantly, the switch from a "voucher-based" system to a "regional bidding" system was done with health infrastructure in mind. The government tied the right to insure a region to an obligation to renovate dilapidated hospitals or build new ones, which insurers must operate as hospitals for at least seven years, after which they are free to use the property as they wish. Transparency International Georgia (TIG), a watchdog, has raised concerns about a possible conflict of interest related to funneling MIP funds through companies provide both insurance and care. Mikheil Kukava, TIG's healthcare specialist, laments that the government did away with the voucher system, which he called the "best and most rational" iteration of Georgia's public healthcare schemes.

However, Nikoloz Gamkrelidze, Amiran's son and CEO of the Georgia Healthcare Group, which has both insurance and health services divisions, attests to the success of the regional scheme, at least in improving health infrastructure around the country. Before the Saakashvili government's reforms, Georgia's hospitals were, in Gamkrelidze's words, "a farce." With the infrastructure investments that insurers were required to make under the regional bidding system,

Georgia's hospitals are now cleaner and more advanced. Today, some 85 to 90 percent of hospitals in Georgia are privately owned.

It is important to note the efforts made by private insurers to keep costs down, for better or worse. Private insurers in Georgia limit healthcare cost inflation by negotiating with service providers over prices. However, TIG reports that private insurers have sometimes unlawfully declined claims in order to limit expenditures.[v] In another example of shady business practices, the insurer Alpha incorrectly told beneficiaries that they were entitled only to purchase drugs at Aversi pharmacies, an Alpha subsidiary.[vi]

Thus far, MIP appears to have succeeded in reducing the financial burden of healthcare for its enrollees. However, some have questioned the precision of the means-testing process that the government uses, suggesting that some of Georgia's poor don't qualify while better-off compatriots do. Additionally, many enrollees in the MIP program seem unaware of the full services to which they are entitled.

Perhaps as a result of MIP enrollees' ignorance of the program's benefits, impact assessments of the MIP program suggest that the utilization of health services has not increased significantly.[vii] Finally, the MIP scheme has done nothing to bring down the cost of pharmaceuticals, the market for which is oligopolistic and thus leads Georgians to spend an inordinate proportion of their healthcare expenditures on drugs.

At the same time that Georgia's poor were enrolling in MIP, there was an uptick in the number of non-government health plans. Due to Georgia's Soviet heritage, using private insurance was not common since the state had provided for health care. Devi Khechinashvili, chairman of the Georgian Insurers Association, explained that MIP helped change this. The best advertisement for private health insurance plans, Khechinashvili argues, is "seeing claims paid." Perhaps more importantly, when the government launched MIP, it increased the risk pool faced by private insurers, lowering premiums for private plans.

With parliamentary elections approaching in late 2012, the Saakashvili government used a similar scheme to expand government funded health coverage to additional segments of society, including pensioners, students, and young children. However, these non-poor recipients of government health coverage face copayments of 10 to 20 percent of service costs and 50 percent of essential drug prices, with a lower state contribution ceiling for drugs than for MIP enrollees.

At present, there are roughly 850,000 to 900,000 enrollees in Georgia's Medical Insurance Program, somewhere in the range of 20 percent of the population. This latest expansion will increase the proportion of the population covered by either state-funded or corporate/private health insurance to roughly one-half. Between the increase in insurance coverage and improvements in health infrastructure, Georgia has made significant strides in modernizing its healthcare system since the Rose Revolution. As the elections near, however, the future of Georgia's healthcare system remains a question mark.

2012 Parliamentary Elections and the Political Context

In 2011, Georgian billionaire Bidzina Ivanishvili announced his intention to challenge President Saakashvili's United National Movement (UNM) in the 2012 parliamentary elections. Having amassed his fortune in Russia in the 1990s, Ivanishvili returned to Goergia in 2003, where he spent much of his time and energy as a low-profile benefactor of the arts. Despite being Georgia's wealthiest man, Ivanishvili remained relatively unknown to Georgians prior to entering politics.

Moreover, for many observers, his intentions remain unclear. *The Economist*, a UK-based magazine, asked: "is he just seeking power, is he acting from fear of (or with encouragement from) the Kremlin, or does he really wish his country well?"[viii] Saakashvili's UNM has supporters and detractors, but most politically aware Georgians understand that the party prefers small government, even if they don't agree with that position. By contrast, the Georgian Dream coalition that Ivanishvili leads is more ideologically diverse. Despite the ambiguity surrounding Ivanishvili, he has highlighted some of his policy priorities, one of which is making the health care system more equitable.

For Ivanishvili and the Georgia Dream coalition, the odds of winning a majority in parliament are long. A recent poll shows UNM with a sizeable lead among likely voters, though 43 percent of respondents were either undecided or unwilling to indicate their leanings.[ix] One interesting component of the pre-election prognosticating is the question of President Saakashvili's future. Constitutionally barred from seeking a third term in Georgia's 2013 presidential elections, many wonder whether President Saakashvili might seek to become prime minister if UNM wins a parliamentary majority. Georgia recently changed its constitution to move from a presidential system to a parliamentary one, empowering the prime minister while making the post of president largely ceremonial.

While UNM is leading in the polls, President Saakashvili and his party are not without weaknesses. Though UNM have received credit both in Georgia and abroad for their bold reforms of the public sector, President Saakashvili is notoriously mercurial. Further, observers suggest that he has flashed authoritarian tendencies. Revelations about abuse in Georgia's penitentiary system have also raised questions about his commitment to human rights. Ivanishvili, responding to public anger over the human rights violations, called on voters to head to the ballot boxes "without much emotion and to change these authorities through the elections."[x]

Despite this recent controversy, most observers believe that the UNM will emerge victorious. However, high levels of undecided voters suggest that the Georgian Dream coalitions could tighten the race with a late surge. Ivanishvili and his team will be looking for opportunities to demonstrate a positive vision for the future and to differentiate Georgian Dream from Saakashvili's UNM.

Looking Toward Universal Coverage

Few would deny that the reforms pursued by Mikheil Saakashvili and the UNM have transformed Georgia. The public sector has been downsized and streamlined, crime has plummeted, and corruption is much less common. However, the zeal with which Saakashvili's

government pursued reform left many Georgians alienated; for some, UNM imposed policy changes from above with little public buy-in and little concern for fairness.

For Gamkrelidze, healthcare is an area where there could be more of a commitment to fairness. To Gamkrelidze, universal coverage is the “most humanistic, most fair” approach to health care; everyone should have equal access to a “minimum basic package.” Even as a public servant in the health sector in the 1990s, Gamkrelidze recalls that his “vision was always universalism.” Importantly, while current government health care programs target the poor and other “socially vulnerable” groups, many poor Georgians remain uncovered. Even those considered middle-class by Georgian standards struggle to pay for health care, particularly when unplanned in-patient care is necessary. However, there is no single path to universal coverage and any healthcare system will have pros and cons.

Maintaining the current public healthcare system—i.e. using private insurers as an intermediary—and seeking to expand coverage to additional segments of the population incrementally involves the least budgetary risk. The current system appears fiscally sustainable, and has had a positive impact in encouraging the development of a private health insurance market. However, staying the course also delays the day when all Georgians will have affordable access to basic health care. With the Saakashvili government having just expanded state-funded health insurance to pensioners, students, and young children, it could be several years before the next expansion of coverage could take place without substantially increasing the share of government spending on healthcare as a percentage of GDP.

Maintaining the current system while rapidly expanding coverage to all uninsured Georgians would entail greater costs than at present. However, it would also present few administrative challenges. This option would also create greater equity among Georgians with respect to healthcare and could bring political benefit to Ivanishvili and Georgia Dream. Moreover, some believe a universal program could win Georgia currency with international institutions like the World Health Organization, which encouraged countries to move toward universal coverage in their 2010 World Health Report.[xi] Of course, any increase in the proportion of government expenditures going to health care carries an opportunity cost.

Overhauling the current healthcare system, removing private insurers as an intermediary, and expanding basic coverage to the entire population would be both costlier and administratively more challenging. Such a program would likely be popular with most Georgians, and it could mitigate issues like service denials that have been associated with private insurers under the current system. However, removing private insurers from the equation could hamper the government's ability to control costs, with some observers claiming that private insurers are better positioned than the government to negotiate prices with service providers and pharmaceutical firms. This option would also negatively impact private insurers that rely on current state healthcare programs for revenue.

As Gamkrelidze and other experts weigh the various options for the future of Georgian healthcare, they must consider costs both in the short- and long-term. First, some believe that there may be an incentive to over-consume those health services and products that are free or nearly free. As people internalize the benefits they receive and use health services more frequently, per capita costs could increase. Second, and relatedly, there may be a trend toward healthcare inflation. Some believe that as more people gain health coverage, demand for health care will increase, potentially driving up the cost of health services. Finally, a truly universal program will end up providing benefits to Georgia's richest citizens, who are capable of paying their own health care costs.

The Choice

As Gamkrelidze considers what advice to give the Georgian Dream officials that have solicited his opinion, he must balance a sober view of Georgia's fiscal constraints with a forward-looking approach to improving the welfare of ordinary citizens. Gamkrelidze believes that access to basic healthcare is a human right but, after a long career of public service, knows the importance thinking about the long-term. In fact, one of his criticisms of President Saakashvili is that he doesn't have a long-term vision or strategy for reform.

Moving quickly toward universal health coverage is the more ambitious path. Expanding the current state healthcare system, with private insurers remaining as intermediaries, would likely be less challenging administratively than overhauling the system. Keeping private insurers in their current role might also help keep costs down, and would be preferable for private insurers themselves. However, in the context of government-funded programs like MIP, private insurers have been accused of limiting access to services in the hope of increasing profits. Scrapping the current system and moving to a universal system that does not use private insurers as an intermediary might help mitigate issues like service denials that have been associated with private insurers under the current system. In either case, if a universal option is pursued in the near-term, it will be important that Georgian Dream decides to prioritize healthcare in budget discussions so that state-funded healthcare is sustainable.

The less ambitious but less risky path would be to maintain the current system, accepting that Georgia is not yet rich enough to have a universal healthcare scheme. Rather than focusing on extending state benefits to new segments of society, Georgian Dream, if elected, could focus on improving the administration of the current system. Universal health care may be a worthy goal, but as a developing country, Georgia faces many challenges and public funds could be put to good use in a number of areas.

Gamkrelidze has an upcoming consultation with representatives of Ivanishvili and Georgian Dream and must soon decide what to recommend. With a background in medicine and public health, Gamkrelidze understands better than most the importance of having sound health policy. He also understands that any advice he gives will be received in the context of a political campaign.

Should Gamkrelidze recommend a universal health care scheme? If so, which one? If not, how can the administration of the current system be improved? If private insurers are to remain involved, how might Georgian Dream, if elected, ensure that they play a more constructive role? If private insurers are removed from the equation, how might the financial risk of directly reimbursing service providers be mitigated? How will current beneficiaries of state-funded health insurance react if the system is overhauled?

Endnotes

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[i] Tata Chanturidze et al., "Georgia: Health system review," *World Health Organization: Health*
[ii] Chanturidze et al, 15.
[iii] George Gotsadze et al, "An impact evaluation of medical insurance for poor in Georgia: preliminary results for policy implications," *Health Policy and Planning*, 30 (2015), i3.
[iv] For a more comprehensive description of the Medical Insurance Program, see: Owen Smith, "Georgia's Medical Insurance Program for the Poor," *The World Bank: Universal Health Coverage Studies Series*, 2013.
[v] Tranparency International Georgia, "The Georgian Health Insurance Industry," 2012, 14.
[vi] Transparency International Georgia, 14.
[vii] Gotsadze et al, i11.
[viii] *The Economist*, "Misha challenged: A plutocrat emerges to take on Mikheil Saakashvili," December 3, 2011. http://www.economist.com/node/21541081
[ix] *The Economist*, "Georgia's elections: Outrage in Tbilisi," September 24, 2012.
[x] *Civil Georgia*, "Ivanishvili Calls Against 'Unplanned' Rallies," September 19, 2012. http://www.civil.ge/eng/article.php?id=25226
[xi] The World Health Organization, *World Health Report: Health Systems Financing: The path to universal coverage*, 2010.

Appendix

Figure 1: Georgia

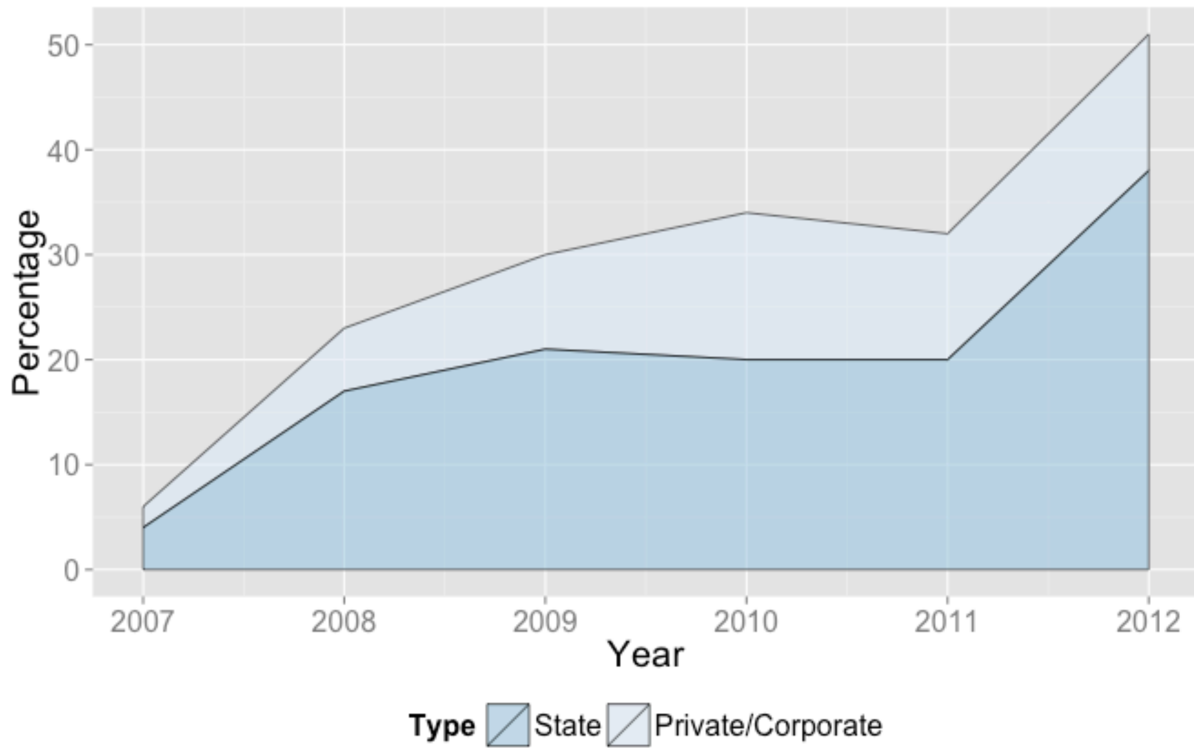
Source: CIA World Factbook

Table 1: Georgia Country Statistics (2012 est.)

CATEGORY	
Population	4.3 million
GDP (official exchange rates)	$15.85 billion
GDP (purchasing power parity)	$31.62 billion
GDP per capita (purchasing power parity)	$6,822
Cash surplus/deficit (% of GDP)	-0.46%
Central government debt (% of GDP)	32.50%
GINI Index	41.3

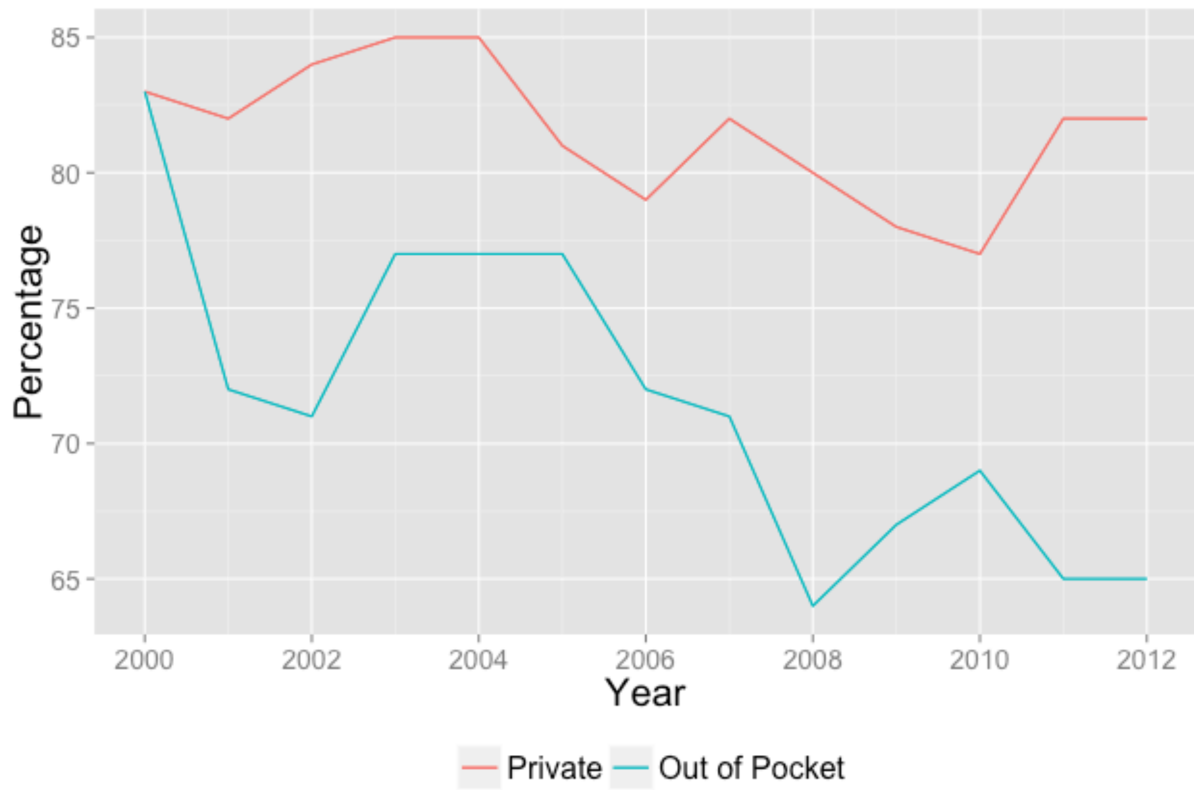
Source: World Bank

Figure 2: Proportion of Georgian Population with Health Insurance



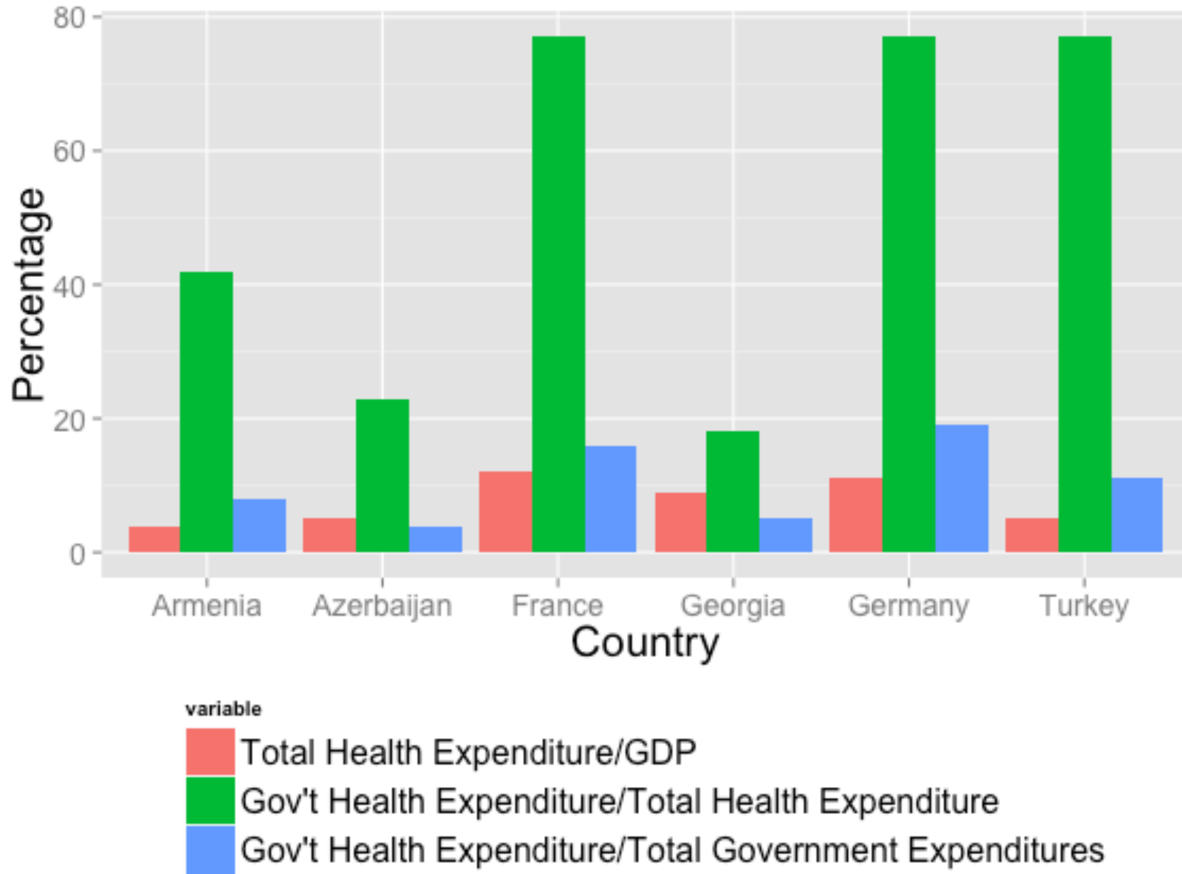
Source: Adapted from Bendukidze et al, "Healthcare Reform in the Republic of Georgial"

Figure 3: Payment Source as a Percentage of Total Healthcare Expenditure



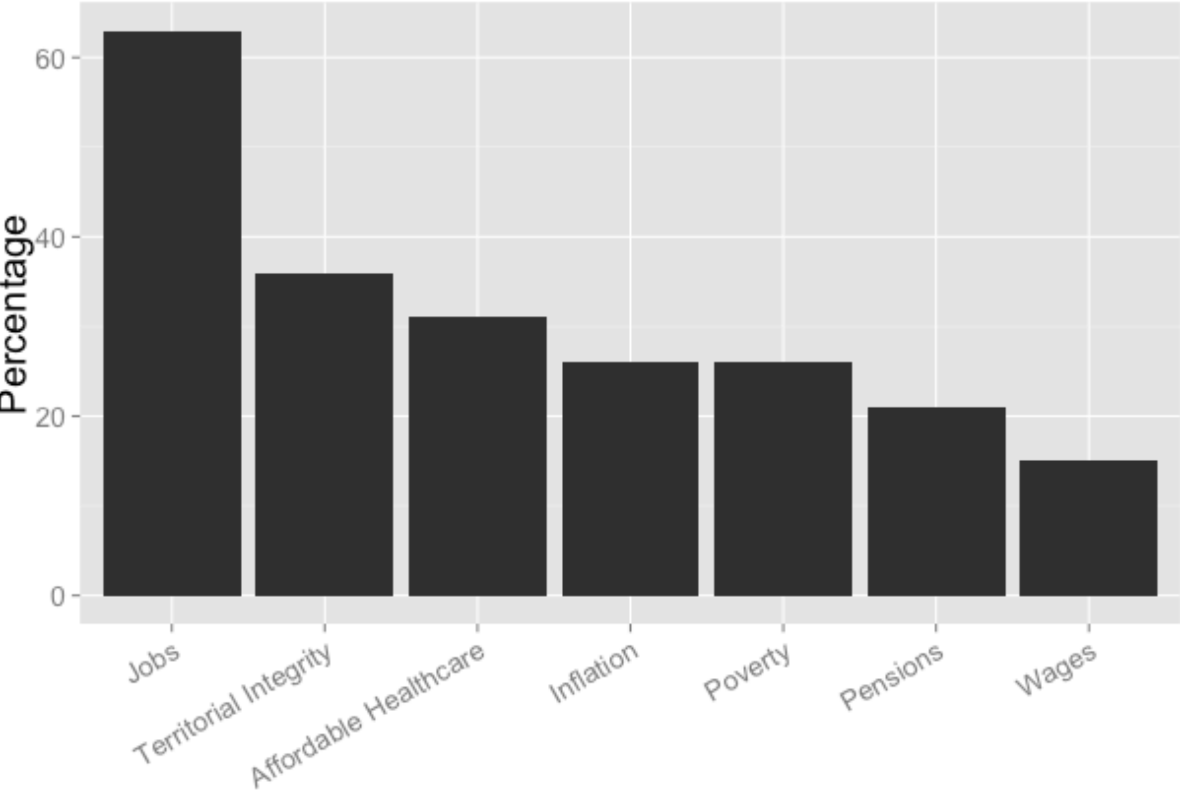
Source: World Health Organization

Figure 4: Health Expenditures Across Countries, 2012, in Percentage



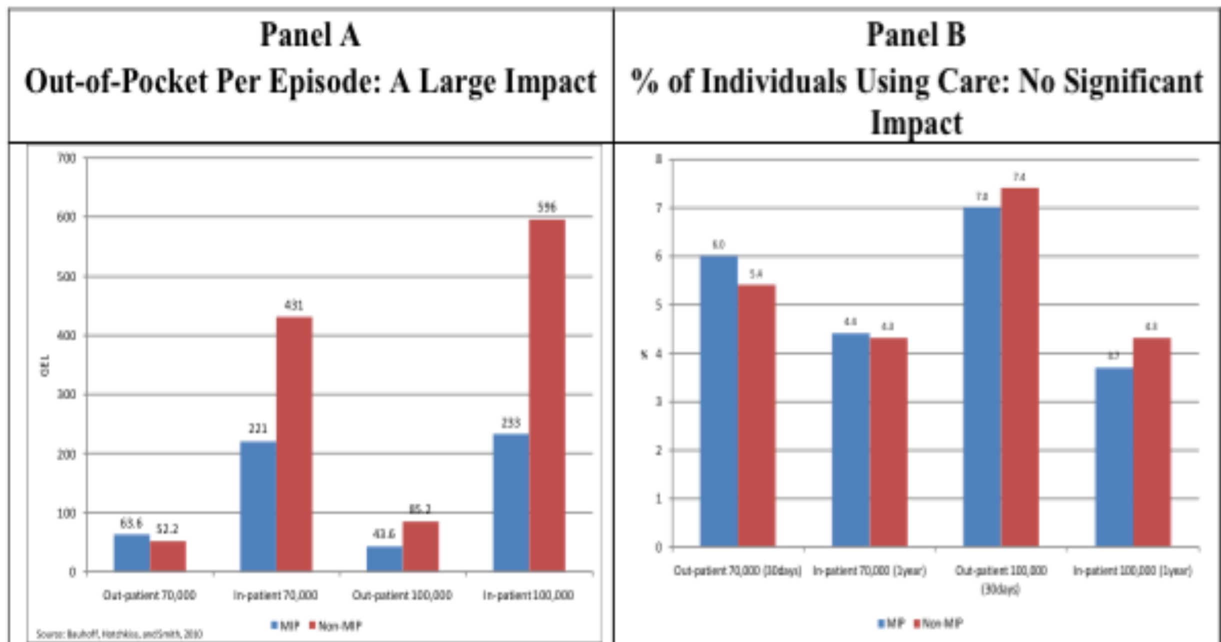
Source: World Health Organization

Figure 5: Most Important Issues Facing Georgia, Percent Responding (February 2012)



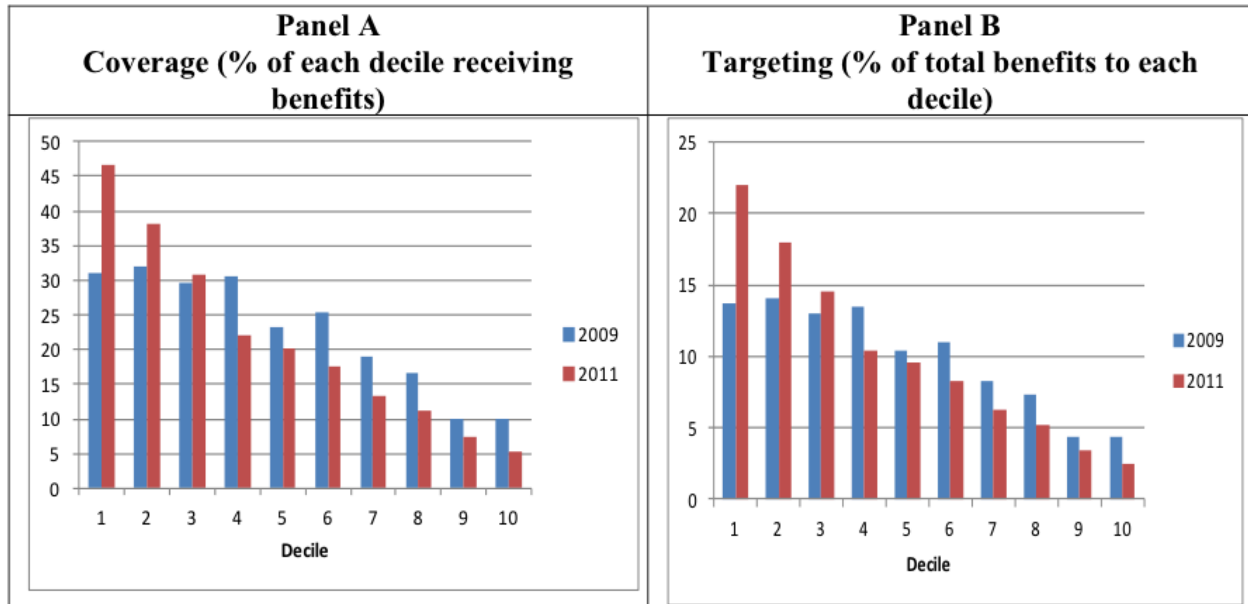
Source: Adapted from National Democratic Institute, *Public Attitudes in Georgia*

Figure 6: Impact of MIP on Out-of-Pocket Expenditures and Health Care Utilization, 2009



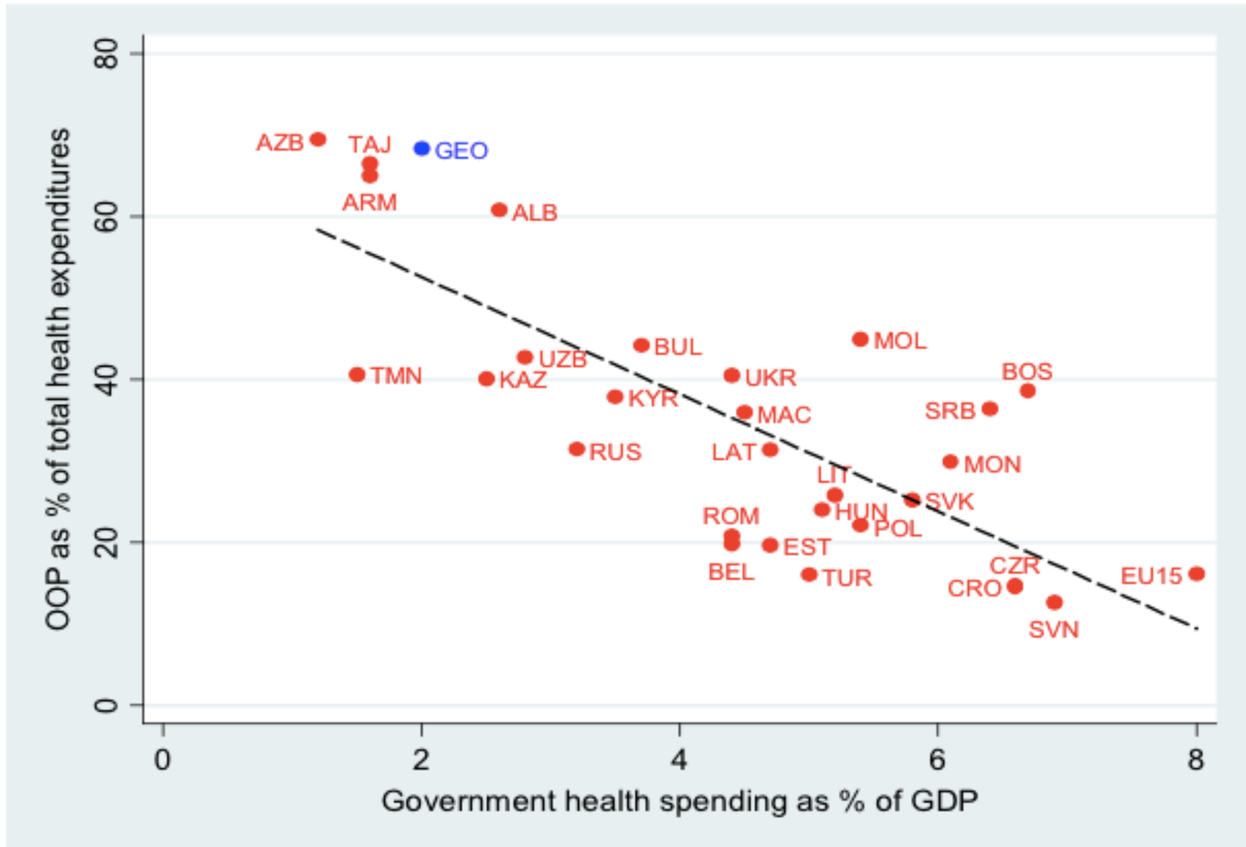
Source: The World Bank

Figure 7: Coverage and Targeting of MIP, 2009 and 2011



Source: World Bank

Figure 8: Government and Out-of-Pocket Health Expenditures in Europe and Central Asia, 2010



Source: World Bank

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