
Health sector reform in China

Response to Prof Le Grand

by

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**World Health
Organization**

“Choice in a Quasi-Market”

YES,

Offers *potentially* good or ‘least-worst’ balance between:

- Creating positive incentives
 - Responsiveness, efficiency, quality
- Minimising perverse incentives
 - Over-diagnostics, over-treatment
 - Under-treatment

.... BUT

“Quasi-Market in China”

1. Funds from Govt

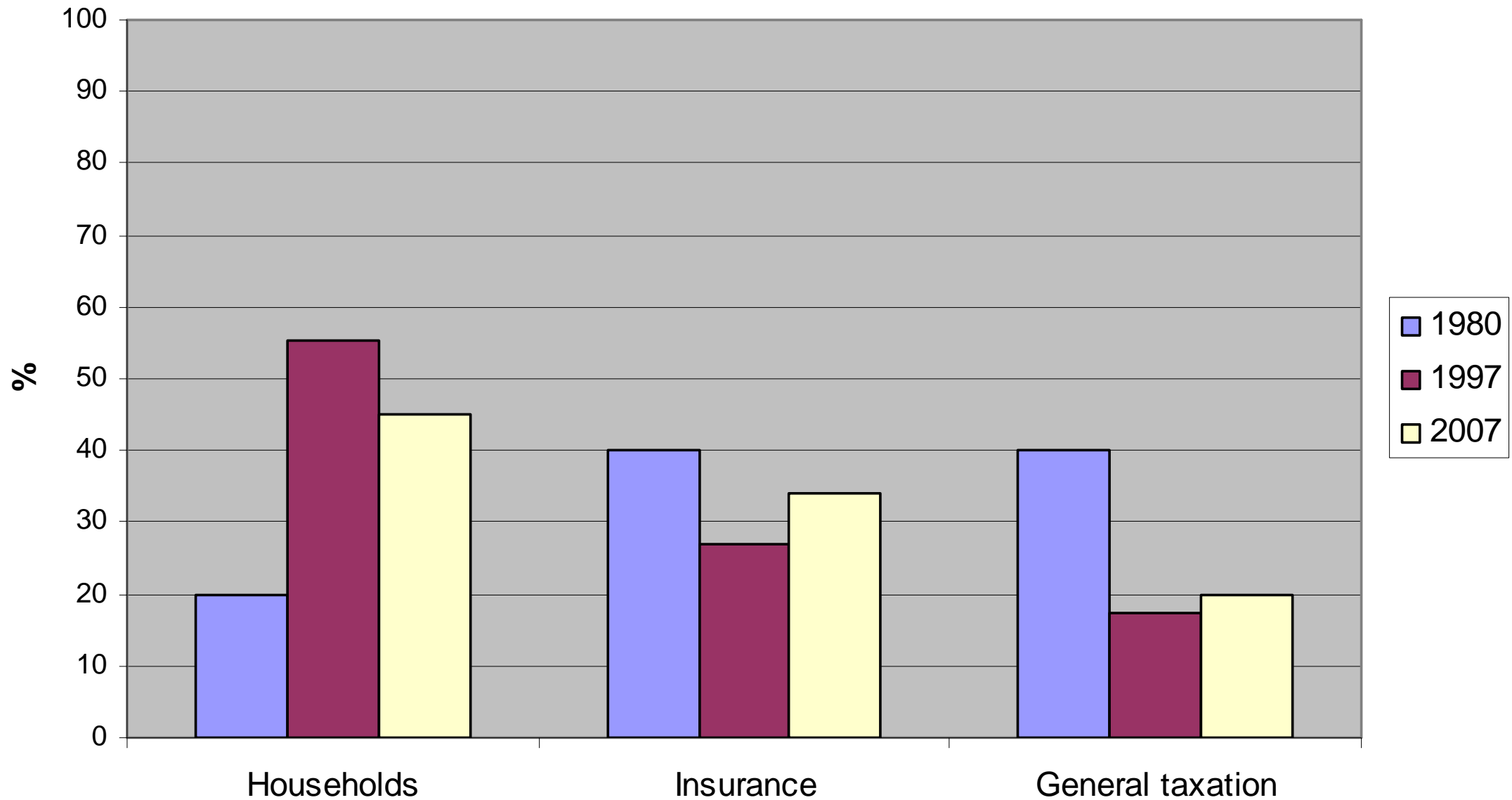
- Sufficient to support the market?

Total Health Expenditure is 4.5% GDP, **but ...**

- Equity – Access
 - **High savings rate ...**
- Safety and quality
- Public health goods

Sufficient Government Funding

Structure of total health expenditure in China



“Quasi-Market in China”

2. Diverse providers – are they diverse?

- Only 5% of hospitals in private sector
- Most providers are public-for profit

3. Agents – who are the agents?

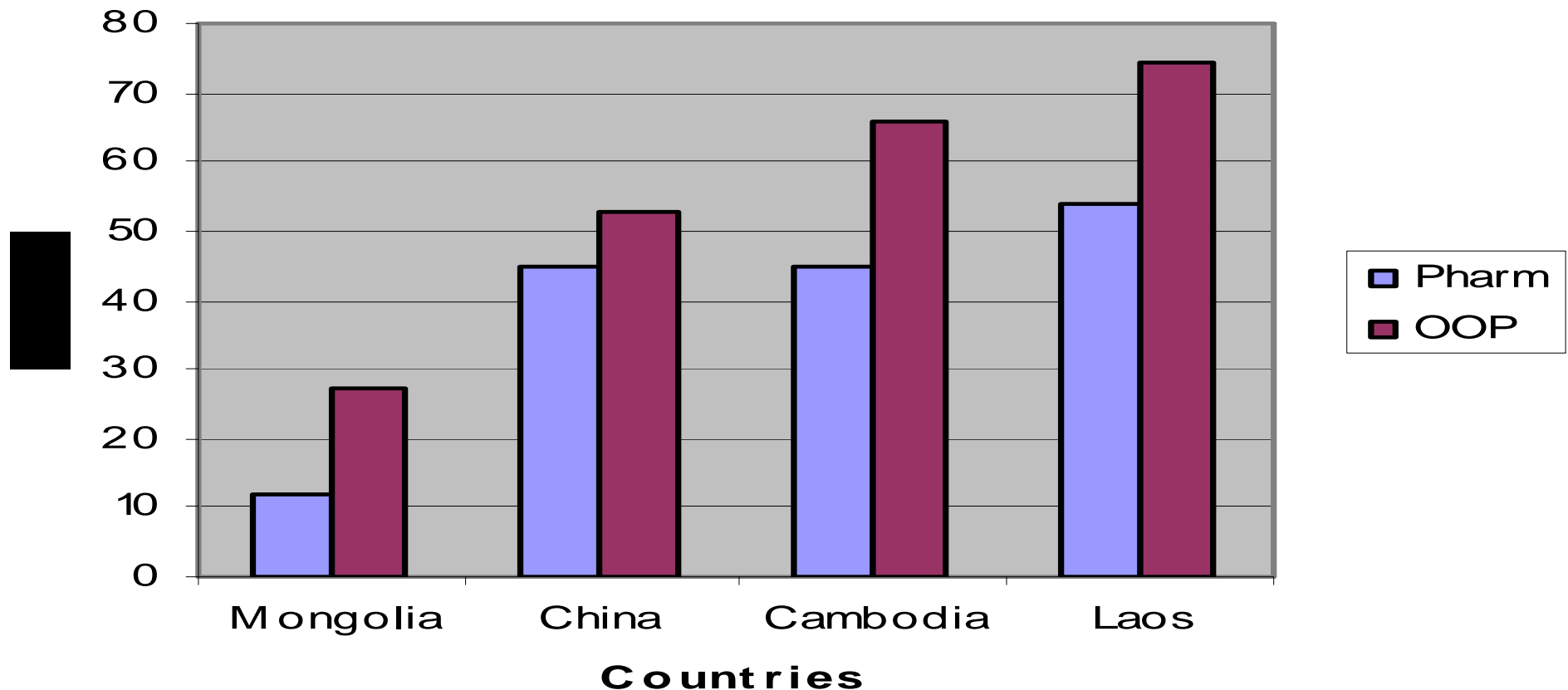
- Reimbursement is weak negotiation model to act on behalf of patient
- Govt is controller and purchaser of services:
Govt runs insurances in both rural and urban areas (BMI, UCMS, RCMS)

More money no guarantee for improved services

THE PATIENT NEEDS HELP

Salaries are for major part paid through selling drugs and diagnostics in health systems with high OOP

Pharmaceutical and OOP expenditures as a % of total health expenditure, 2005



“Quasi-Market in China”

Three pre-requisites must be met to achieve a viable delivery model

1. Sufficient Government funds (more money for health)
2. Create better agents that can bargain better quality and lower costs for both the patient and society
(more health for the money)
3. In addition, an appropriate regulatory system and oversight is needed for a viable service delivery model for China
 - Quality of health care and services, accreditation of health workers, cost control, food and drug safety

China Reform: Universal Coverage by 2020

Macro-perspective

- Invest in Health
 - Healthy population to prosper
- Reduce precautionary savings - consumption
 - Ensure vulnerable and poor benefit
- Stability concern

Increased govt funding creates opportunities

1. Meeting equity goals (UNIVERSAL COVERAGE)
 - Population coverage of wider package of services
 - Increase reimbursement level and reduce co-payments
 - Strengthen safety net

2. Increasing the use of prepayment and pooling
 - **CREATE AGENT** that can get better value for money for the patient in both quality and cost (DRG, ..)

3. Considering separation of regulatory and overseeing functions from implementation (e.g. health insurance)

Concluding comments

- Quasi-market system addresses some of perverse incentives
- BUT risk that quasi-market system creates more perverse than positive incentives if prerequisites are not met:
 - **sufficient government funding**
 - **existence of effective agent for patient**
 - **appropriate regulatory system**
- Opportunities in China to address these prerequisites to get better value-for-money.

- China – Step by Step – directions are clear
- Needs prolonged political commitment and readiness to adapt to challenges on the way – accountability at all levels crucial