

Intercountry workshop on health financing and resource allocation in the Baltic countries

Baltic countries in Europe: overview

	Estonia	Latvia	Lithuania	EU 25	EU 10
Total health expenditure as % of gross domestic product (GDP) (2002)	5.1	4.9	5.75	8.98	6.49
Total health expenditure, PPP\$ per capita (2001)	559.35	386.5	491.26	2030.81	756.15
Public health expenditure as % of total health expenditure (2002)*	76.3	52.5	60	n.a.	n.a.

WHO/HFA Database, Release June 2004

* Country case studies prepared for the workshop

Achievements related to health financing in Estonia

1. During the nineties, Estonia established a **compulsory health insurance approach** funded by payroll taxes and budget transfers. While a small proportion of the population remains uncovered, the EHIF is a well established institution which contracts for most health services on behalf of the population. In contrast to many transition economies, the system's finances are healthy in the sense that it not plagued with debts and arrears and the financial circuits between the institutions are clear.
2. An important dimension in the performance of the health care system is the extent to which it provides **financial protection** against having to spend large amounts to pay for care. International evidence shows that the poorer a country is, the more it has to rely on out-of-pocket payments to finance care, and the more inequitable the systems tends to be. Estonia's financing mix (more than 75% publicly funded), is close to that of the richest countries, in particular European ones. In the other Baltic countries, however, private payments (both formal and informal) are relatively more important. Even if there are some concerns (see below), this means that Estonia is in a fairly good position to achieve a critical objective of the health care system: offering financial protection to the citizens.
3. Estonia has made efforts to introduce a **strategic purchasing** mentality in the system and payment mechanisms that promote cost-effectiveness and performance. For instance, similarly to Nordic Countries and some other Western European countries, Estonia has introduced case based mechanism to pay hospitals, known also DRG based system. In combination with other changes made in the organization of health facilities (e.g. hospital mergers), this mechanism has contributed to a much-needed restructuring of the health care delivery system.

Key challenges in health financing in Estonia

4. **One concern pertains to financial risk protection.** While many conditions are in place to ensure good financial protection for the population against the risk of incurring high levels of health spending, there are some concerns that this objective is not fully achieved.
 - In Estonia health insurance covers 94% of the population. Social health insurance systems, particularly in Latin American countries, tend not to be universal and this is a source of inefficiency as well as inequity in these systems. In Europe, Social Health Insurance schemes tend towards including the whole population (except for Germany and the Netherlands in which historically, the richest part of the population is excluded). In other countries, if some vulnerable groups are not in a position to pay contributions, the governments makes transfers to the health insurance funds to ensure that they have access to care in the same conditions as the rest of the population. In Estonia, such transfers cover only part of the non-contributing population. And unlike Germany and the Netherlands, uninsured persons are clearly not among the better-off, and as such they are very vulnerable to financial shocks associated with the cost of using health care.
 - Another (in part related) concern is about the distribution of out-of-pocket payments. A recent WHO study showed that more than 1% of the population fall under the poverty line every year because of health care payments. This evidence suggests that there is room for improvement in terms of the financial protection provided to citizens.
5. **Long term financial sustainability and level of health spending.** In comparison to other European countries, Estonia spends relatively little on health (5.1% of GDP in 2002) . Increasing this, and particularly the level of government health spending, is not a policy objective per se. In view of the reality that Estonia trails most EU countries in various measures of health status (e.g. life expectancy), however, there may be cause for government to increase the relative priority given to health in budget allocation decisions. More specifically, addressing the challenges posed to the well-being of Estonian society by HIV-AIDS and Tuberculosis is likely to require increased allocations to health in the short and medium term in order to avert serious problems in the longer term.
6. **Cost-effective use of health resources.** Improving the sustainability of the health system will involve more than just increasing the level of funding. It is very important, concurrently, to improve efficiency in order to get the best value for the money that is spent on health. This will require efforts to manage and contain costs of the entire system. It also requires efforts to do the same at the level of health care providers and to ensure that there are clear mechanisms in place to ensure accountability for the use of public funds.

The achievements and weaknesses of the three Baltic countries will be discussed during the workshop and put in perspective with those of other European Countries. This will feed into the dialogue about future directions in health financing policy for each of the countries.