The Privatization of the Georgian Healthcare System

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Introduction

During the Soviet period, Georgia was one of the more affluent republics in the Soviet Union. The shores of the Black Sea and the abundant agriculture drew tourists to the popular republic. Despite the draw of the fresh fruit, tea plantations, and the Mediterranean climate, health care in Georgia during the Soviet period was the same as in the rest of the Soviet Union—underfunded (Field and Twigg 2000:43), inadequate, and of low quality. The centralized socialist system strove to provide comprehensive, free, and accessible health care for everyone, and initially made huge strides in improving life expectancy and curbing the spread of infectious diseases. By the 1950's, however, the health system started to fall behind Western Europe, and by the fall of communism, mortality and morbidity rates were much higher than Western Europe, and the health system had been on a steady decline for thirty years (Trages 2003:9). Low funding and isolation from medical advances and research in the rest of the world all contributed to an inadequate system.[1] Even though the Republic of Georgia produced revenue from wine, agriculture and tourism, the population, like the majority of Soviet citizens, remained relatively poor. The collapse of communism, the rapid transition to a market economy, civil war in the early 1990's, and political upheaval all had a severe impact on the health care system and the country's ability to address a large, impoverished population. The inadequate system in Soviet times became even more dysfunctional following the collapse of communism and the end of subsidies from the central government in Moscow. Throughout the 1990's hospitals and policlinics struggled to serve their patients with even less state-funding and continued deterioration of the health care environment.

In addition to isolation and under-funding, the Soviet system produced an oversupply of hospitals, doctors, and nurses. The glut of manpower, while touted as a great achievement of Communism, actually led to redundancies and once the system collapsed, resulted in hundreds of unemployed healthcare workers. The health care system relied heavily on in-patient care in hospitals where perverse incentives developed encouraging providers to hospitalize patients for long periods (Marquez and Lebedeva 2010:1). It was common practice to hospitalize pregnant women for two to three weeks before they gave birth and another two to three weeks afterwards. While there were preventative efforts such as a comprehensive vaccination system, there was little to no emphasis on healthy lifestyles[2] or taking responsibility for one's own health. While most patients visited a policlinic first for most health problems, the majority of physicians were trained in narrow specializations and this led to patients being referred to specialists even for common ailments such as a cold or flu and frequently being unnecessarily hospitalized for lengthy periods.[3] When international organizations entered the scene in the 1990s hoping to help rebuild the broken health care system, they focused on creating primary health care (PHC) capacity, eliminating excess hospital space, reducing hospital stays and training doctors and

nurses in various areas that had been neglected in Soviet medicine. Generally, these organizations tried to implant a broad base of skills and knowledge among the healthcare work force and create a more streamlined, rational health care system. Incremental health sector reforms started under Shevardnadze in the 1990's with the main focus on PHC, and these efforts were successful initially (Gotsadze, A. Zoidze and O. Vasadze 2005).

This article will examine the dramatic changes that have occurred in Georgian healthcare since the Rose Revolution of 2003. What were the motives for the abrupt privatization of the Georgian economy, including the healthcare sector? The research for this article draws on interviews with Georgian physicians and healthcare administrators, the few reports that have been written about the attempts at privatization, lectures by Georgian politicians who have come to the US to explain the reform processes in Georgia, and my own observations working for the American International Health Alliance in Georgia over the past decade.

The Rose Revolution

Shevardnadze helped lead the country through the tumultuous years following the collapse of communism, but by the late 1990s the government had rampant corruption and many people were hopeful that a new government would usher in a less corrupt and more democratic era. By 2003, when the Rose Revolution occurred, the Georgian population was restless and disillusioned with Shevardnadze and the slow pace of improvements in their lives. The Rose Revolution was an exciting, bloodless turnover of the government. It promised change and a new era for Georgians. While the Rose Revolution does not qualify as a revolution on the scale of the great revolutions of the 19th and 20th centuries, the sweeping economic reforms that the new regime has attempted to institute have been revolutionary in their scope, and health care has been no exception.

In 2007, the Georgian government declared that the entire health care system would be "privatized." Until these radical reforms were announced, the Georgian system had been limping along in a post-Soviet mix of centralized, state-funded health care with some privatization on the periphery for citizens who could afford better care. During the Shevardnadze period, privatization had begun both in health financing and health services delivery in a very incremental fashion mostly to accommodate the needs of a small middle class and the few very wealthy Georgians. Nascent health insurance companies began offering policies developed to provide access to new technologies and services not otherwise available in the government hospitals. The policies procured access to selected providers as well as covered certain costs related to services in private facilities, such as specialized diagnostic centers even within existing government-owned facilities. These incremental and small steps towards privatization were occurring at the same time that the government was trying to systematically improve the primary health care system and shift services from hospitals to ambulatory clinics. The radical 2007 privatization reform was a sweeping shift in government policy. The institutional infrastructure, both the insurance industry and healthcare providers, was not fully in place or equipped to handle a new environment devoid of government support.

The privatization reforms sent shock waves through a country where much of the population still lives in poverty (Chanturidze et al. 2009) and cannot pay even small insurance premiums. During Communism there was neither a need for, nor a structure developed for private health insurance. The concept of insurance as a protective mechanism was beginning to become established in 2007, but health insurance was practically nonexistent. Hospitals were suddenly faced with the need to enter into a complex system of reimbursement, but the infrastructure did not exist. Skilled physicians, nurses, hospital administrators, and managers who can manage in a privatized setting were and remain another gap in the health care environment. While the idea of allowing free markets to energize and push health care delivery forward might have seemed appealing in theory, there were very few people who had any experience with managing private health care institutions or with creating and running health insurance companies.

One of the central reformers who returned to Georgia after the Rose Revolution was Kakha Bendukidze who had been directly involved in the "shock therapy" reforms that were implemented in Russia in the 1990's. He was able to make a fortune in post-Soviet Russia and was well known as a "Russian oligarch" (The Economist 2004). Tapped by the new president of Georgia, Mikhail Saakashvili to help reverse the many years of post-Soviet decay and to follow the mandate of the Rose Revolution by infusing the Georgian economy with new life, Bendukidze took on his new role with relish. An extreme libertarian, when he was appointed State Minister on Reforms Coordination in Georgia in 2004, he famously announced that Georgia "should sell everything except its conscience" (Udensiva-Brenner 2010).

The motivation for the privatization of health care was the same as for all other sectors of the economy. This was not a reform that aimed to improve efficiency, access, or quality in health care – the primary goal was to let market forces take over and relinquish the government's responsibility for the health sector. Bendukidze's philosophy was that the government did not have a purpose in being involved in health.

Critics have voiced concern that Bendukidze sold too many assets to Russia while supporters credit him with "Georgia's Economic Miracle." During Bendukidze's tenure (2004-2009)[4] the Saakashvili government was able to reduce bureaucracy, cut taxes, and radically institute wholesale privatization of all sectors of the economy (including healthcare). While the initial reaction to the Rose Revolution was enthusiasm and hope for a better life, the contradictory and slow progress of reforms has led to extensive criticisms (Tatum 2009).

Relations with Russia have soured since the Rose Revolution's early days, and tensions erupted into full-fledged war in August 2008 over Abkhazia and South Ossetia. The government remains unstable with continued shifts in ministerial posts (much like the previous government). In addition, health care funding remains inadequate for the majority of the population. The radical reforms instituted by Bendukidze are now left for others in the government to manage or replace.

Master Plans and Reform Efforts

One of the main problems with the reform process in health care is that the government rushed to privatize and transform from a partially state-funded system to a completely insurance-based system practically overnight. The infrastructure was not in place, and the human resources were not prepared for such an abrupt change. In fact, to this day many citizens, especially in rural areas, remain uninformed about the insurance reforms and they are puzzled by the complexity and lack of clear guidelines for how to proceed in the new system (Transparency International 2010).

The continual nature of the reforms—every year since 2004 the government has announced sweeping health care reforms—makes evaluation or assessment very difficult. In 2004, the government issued the Primary Health Care (PHC) Master Plan for 2004-2006.

> This dramatic policy change was implemented with minimal consultation with civil-society groups, donors, or other stakeholders. It prompted concerns from donors like the European Commission that their recent investments will be undermined. The European Commission in Georgia and Armenia has invested significantly in primary health care services in recent years, and is appropriately concerned about the fate of its newly trained medical personnel and renovated facilities. Ownership of the newly renovated facilities and management of primary healthcare services are of less concern to the European donors than the familiar question of whether or not the new infrastructure will retain a healthcare-related function in the long-term future. [Hauschild and Berkhout 2009:31-32]

In January 2007, recognizing the remaining gaps, the government announced a new strategy, "Main Directions in Health 2007-2009." Affordability, quality, access, and increased efficiency were the strategy's primary objectives (ibid.). Another plan, The Hospital Master Plan, was enacted the same month, calling for near complete privatization of the hospital sector. The plan enabled investors to buy old hospitals on prime real estate in Tbilisi or regional centers and although they had to renovate and keep the hospitals as health care facilities for seven years, after this time has elapsed, the investors can do whatever they want with the valuable land. Already investors are falling behind schedule with the hospital renovations (partially due to the global financial crisis) and there is "growing evidence that the plan is failing" (ibid., p. 33). In March 2008, the government announced yet another plan for 2008-2012 with similar objectives to the previous plans.

More recently in 2010, a new hospital Masterplan was issued requiring that any insurance companies participating in the state insurance financing schemes must also be involved in helping to build and operate hospitals throughout the country.

While the size of the Georgian population is not known definitively, official statistics estimate a population of 4.4 million. The population has been shrinking since independence in

1991, and the proportion of people over 65 has grown from 9.3% in 1990 to 14.5% in 2008 (Chanturidze et al. 2009:3). The insurance system is starting to take hold and the number of insured people has reached 1.5 million.[5] However, problems persist for patients and their families with high out of pocket payments and very high, nonrefundable pharmaceutical costs. Two reports, one by Oxfam and the other by the European Observatory of the World Health Organization, have attempted to assess the impact of these reforms (Hauschild and Berkhout 2009). These two reports are the most comprehensive assessments of the shifting environment to date. The Oxfam report lists the following main concerns about the privatization reforms:

1) Coverage—the current system covers the poorest of the poor but leaves the low income population with no state coverage and unable to afford health insurance. In addition, the private insurance policies offer very limited coverage.
2) Monopolies: Much like the result of the shock therapy economic reforms in Russia in which Bendukidze was involved, monopolies have formed quickly.
3) Lack of a regulatory system: This is a problem for health insurance to work properly as mentioned earlier, but with the political fluctuations and new plans continually emerging, there is also concern that there are not adequate regulations and oversight of clinical practice (ibid., pp. 34-36).

The WHO assessment argues much of the same points as the Oxfam review but stresses the dangers of the current approach:

> The government has recently decided not to develop an accreditation process for healthcare facilities in the medium term, arguing that the very low quality of facilities means that priority should be given to ensuring minimum standards rather than focusing on quality measures...However, many fear that the Ministry of Labor, Health and Social Affairs (MoLHSA) currently lacks sufficient regulatory capacity to ensure that even minimum quality standards are met and there is no policy on the quality of medical services… In addition, there is also a lack of reliable data with which to benchmark or assess the quality of care. [Chanturidze et al. 2009:102]

Conclusion

The privatization reforms instituted by the Georgian government following the Rose Revolution are still taking shape and the verdict is still out on the efficacy of these changes. Each year since 2004 has brought new attempts at regulation, distribution of scarce resources, and further privatization of state-funded health care. The haste with which the state made decisions and the contradictions in reforms have all undermined the many good intentions of the reform efforts. As Georgia struggles to make health care equally accessible, of high quality, and

affordable for all its citizens, more regulation and oversight must be implemented and there is the possibility that some back-tracking on the radical privatization path may be necessary. There are signs that the Ministry of Health (MOH) and the government want to adjust the reforms to build more consensus within the medical community. The MOH is currently working to gain consensus on various national strategies for dealing with broad public health issues such as the possibility of influenza or another contagious disease outbreak, which would require a centralized response.

During a recent conference on Georgian health care held in Washington, DC, many Georgian physicians complained of not being consulted about the reforms and abrupt changes that have profoundly affected their work environment. They asked the MOH representatives to consult them and to try to gain consensus before attempting further reforms. In an environment where the state has historically determined the course of health care, the new decentralization and privatization process is an abrupt change from the past, but the fact that the state representatives and the private practitioners are working together and the physicians can air their grievances is a step in the right direction.[6]

[1] There is a large and varied literature on the problems and inadequacies of the Soviet socialized health care system. Two works by doctors who worked within the system include Golyakhovsky (1984) and Knaus (1981).

[2] While Soviet propaganda emphasized healthy life styles and the development of the ideal Soviet man and woman, in reality, the health care system did little to inform patients about the dangers of smoking and drinking alcohol or to encourage more healthy diets.

[3] In interviews conducted for a comparative study of Russian immigrant physicians in three countries, we found that this issue of narrow specialization hindered doctors from practicing or retraining in their new country. See Shuval and Bernstein et al. (1997). See also, Field and Twigg (2000:54).

[4] Ibid. Bendukidze was dismissed from the government in 2009.

[5] National Health Account data, MOH. Gov.GE.

[6] *Georgia Health Care 2020: Medea 2011*, a conference in Washington, DC, February 1-2, 2011, that was hosted by the First Lady of Georgia and the Georgian Embassy.

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