"ONE HUNDRED NEW HOSPITALS" FOR GEORGIA: HOW LONG WILL THEY LAST?

Background

Early in 2007 the Georgian government launched a nationwide program of hospital sector restructuring deemed "100 New Hospitals." The goal of the program is to transfer ownership of all state-owned, privately administered hospitals in Tbilisi and the regions to the private sector by means of direct sale. The following report assesses the Georgian government's hospital privatisation program in light of the broader healthcare reform goals specified in the European Community-Georgia European Neighborhood Policy (ENP) Action Plan, namely: improvement of the quality and accessibility of healthcare services, restructuring of healthcare administration and management, and establishment of a sustainable system of healthcare financing.

A key concern of this report is the tendency of the privatisation program to reward investor focus on numbers—quantity of new facilities and hospital beds, speed of completion of new construction, etc.—at the expense of guarantees of quality. A second major concern is the sustainability of the new hospitals and investors' commitment to providing healthcare services in the long-term future.

A Brief History of Hospital Restructuring in Georgia

In the mid-1990s Georgian government and international assessments alike concluded that Georgia's hospital sector was bloated far beyond the country's needs in terms of both infrastructural and human resource capacity. Accordingly, in 1998-9 the Georgian government requested World Bank assistance to develop and finance a plan for rationalizing and optimizing Georgia's hospital sector assets. The resulting master plan for hospital restructuring, finalized in 1999, assessed the quantity and capacity of hospitals nationwide and classified them into three groups. Group "A" consisted of hospitals that were best left in the public domain; Group "B" consisted of hospitals that could be privatised provided they maintained a healthcare function; Group "C" consisted of hospital sector assets that could be sold as real estate (i.e., need not be maintained as healthcare facilities.) According to this plan, five specialized tuberculosis facilities were merged under a single legal entity, the national medical center "Gudushauri" underwent a comprehensive reorganization, and human resources throughout Georgia's hospital sector were downsized by 35 percent. Another key aspect of the World Bank plan was the establishment of a dedicated body for addressing legal aspects of hospital sector optimization, developing severance packages for hospital personnel, and administering a "hospital restructuring fund" to accumulate investments from the privatisation of Group "B" facilities and reinvest them in healthcare infrastructure and equipment.

The post-Rose Revolution government concurred in principle with the World Bank's hospital optimization scheme, but insisted on certain modifications. According to Deputy Reform Minister Vakhtang Lezhava, the government's revised plan guaranteed access within a half-hour's driving distance to basic medical care for 80 percent of the population. (The World Bank plan, according to Lezhava, focused too exclusively on the development of healthcare services in the capital at the expense of rural populations.) The revised plan also called for a systematic shift of emphasis from specialized hospitals (a Soviet legacy) to more comprehensive healthcare facilities. The new plan, devised cooperatively by the Ministries of Labour, Health and Social Affairs, and Reform Coordination, would supply Georgia with 11,000 new hospital beds and at the same time focus on the

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development of hospital administration and management. The Ministry of Labour, Health and Social Affairs was assigned responsibility for implementing the new plan over the course of five years.

Some three years later, late in 2006, State Reform Minister Kakha Bendukidze publicly expressed his frustration with the results of this plan and announced a new, accelerated plan to bring more qualitative change to Georgia's hospital sector. While cosmetic results were already obvious in the construction of new hospital facilities, Bendukidze proposed a plan to fundamentally remake healthcare services throughout the country. Turning the healthcare industry over to the private sector, he argued, would lead to increased competition, increased patient choice, and—correspondingly—the provision of higher quality healthcare services. Upon Bendukidze's initiative, the government developed a radical new plan to privatise *all* of Georgia's hospital facilities in less than one year. In January 2007 Prime Minister Zurab Noghaideli signed a document approving the government's third "hospital development master plan" in just eight years. According to the terms of this current plan, private investors are to supply Tbilisi and the regions with 100 new hospitals and 7,800 new beds (4,185 in Tbilisi and 3,615 in the regions) within the next three years.

Hospital privatisation procedures: still evolving

While the State Commission on Healthcare Reform[1] determined the optimal number and type of new beds per locality, the Ministry of Economic Development is administering the hospital tender process. Importantly, the state receives no financial dividends from the privatisation of its hospital sector assets. Rather than bidding on existing hospital facilities, investors propose to the government the number of hospitals they plan to build (and the number of beds they plan to purchase) anew on the territory of existing, state-owned hospital facilities. As explained in the following section, initially investors must use the purchased land to build hospitals, but after seven years they are free to convert the land and hospital facilities for other uses. The property is being sold in lots, with some land/facilities in Tbilisi and some in less attractive, more remote regions. A positive result of this "mixed bag" approach is that significant investment is being made in the establishment of modern facilities and the provision of healthcare services in previously neglected parts of the country.

As this report was being prepared, seven hospital tender announcements had been made by the Ministry of Economic Development, with five of those tenders concluded (for a total of 1,015 new hospital beds) and two pending. The tender announcements are posted in the investment business weekly "Mesakutre" [Proprietor] and on the Ministry of Economic Development website (www.privatization.ge). They are scheduled at intervals approximately every few weeks. Results of the competitions are publicized via the same outlets.

According to the tender announcements and competition results posted on the Ministry website, the criteria for investor selection appear to be evolving as the privatisation program progresses. For the first four tenders (concluded between 11 January and 30 March) the sole criterion for investor selection was the quantity of beds proposed for purchase. While the criterion for selection was not specified in the tender announcement, it was made explicit in each of the corresponding result postings. In the announcement of the results of the fifth tender the government suddenly described a more elaborate set of criteria for investor selection:

> On April 13, the final results of the ongoing competition for attracting investments to the healthcare sector were revealed. "Block Georgia" Ltd was nominated as the winner of the hospital sector

[1] Healthcare Reform Commission members include the Ministers of Health, Finance, Economic Development and Education, as well as approximately ten other high-ranking officials. The body is chaired by the Prime Minister

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> development project №5…. Czech-Georgian Company "Block-Georgia" undertakes obligations to construct one high-tech multi profile hospital per 190 beds in Sanzona medical cluster within 17 months…. Pursuant to the competition conditions, criteria for detecting the winner were *maximal bank guarantee* and *terms of construction completion*. Envisaging the aforementioned criteria, "Block Georgia" won against the second participant of the competition "MMR group" Ltd, who presented bank guarantee in the amount of 6 200 000 USD and nominated 18 months as the term of construction completion.[2] (emphasis added)

Further, in a 19 April address Minister of Economic Development Giorgi Arveladze publicly announced that the criteria for investor selection are bank guarantee and speed of completion of new construction.[3]

In tender announcements Nos. 6 and 7 the criteria were altered once again: here the quantity of beds proposed for purchase was identified as the primary criterion; in the case of multiple bids for purchase of the same number of beds, the announcements stated, the speed at which the investor commits to completing construction will serve as the decisive criterion. Tender announcements Nos. 6 and 7 are also noteworthy as the first to include a list of "Conditions": No. 6 calls for maintenance of existing departments of one of the privatised facilities, repair on another, purchase of certain types of medical equipment, demolition of certain buildings, and finally—removal and resettlement of seventy-eight refugee families currently residing on the grounds of state-owned hospitals. In tender announcement No. 6 refugees are mentioned even further down on the page under another new sub-heading, "Miscellaneous." The text reads like a formality, as follows: "Refugees occupy the dormitory (No. 31a Chavchavadze Ave., Tbilisi.)" There are no further instructions. The problem of refugee resettlement is so understated it is as if to say that, once the other conditions have been met, refugee families will eagerly vacate the premises to make room for new hospital construction to begin.[4]

According to Tamar Gotsadze, a health consultant for the World Bank, the government originally planned to set a two-year deadline for completion of new hospital construction; at the World Bank's insistence an additional year was added. According to Gotsadze, the European standard is a minimum of five-six years to build and equip a new hospital from start to finish. But the designation of speed of completion of new construction as a criterion for investor selection appears to disregard the World Bank's recommendation entirely. Now investors are submitting tender proposals as though it were a race to the finish line: in tender No. 5 Block-Georgia committed to completing the new constructions in less than half the required time. It remains unclear if and how investors will be held accountable for these increasingly ambitious commitments.

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[2] http://www.privatization.ge/spp/spp/news_view.php?lang=en&action=article&news_id=63. Accessed 19 April 2007.

[3] While it was not until tender No. 5 that the government identified the amount of the bank guarantee presented by the bidder as a criterion for competition, every one of the tenders has specified the amount of the bank guarantee that must be submitted for a bidder to be considered competitive. According to Vakhtang Lezhava, the bank guarantee functions as a security measure, to ensure that an investor's commitments will be met before actual construction begins. According to Ilya Gotsiridze, Head of the Ministry of Economic Development's Privatisation Department, the government calculated the cost for one new, "general profile" (equipped for basic care) hospital bed at approximately 42,000 USD. The Ministry then designated 15,000 of those 42,000 USD (slightly more than one-third) as the minimum bank guarantee required per bed. Thus, for example, in tender no. 4 the government called for 250 new hospital beds and required a bank guarantee in the amount of 3.75 million USD (250 beds x 15,000/bed = 3.75 million.) According to the results of tender no. 4, however, the winning investor (Meridiani, Ltd.) proposed to purchase 265 beds but presented a bank guarantee in the amount of just 3.75 million. In other words, the investor committed to purchase 15 more beds than required in the tender, but failed to present a bank guarantee in the correspondingly increased amount (3.98 million USD) that the government's formula would seem to require.

[4] The tender announcements also fail to mention that the investor automatically assumes all existing liabilities associated with facilities purchased from the state. The stipulation on investor assumption of liabilities is, however, included in the general hospital privatisation program description on the Ministry of Economic Development website.

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Too many beds for Georgia?: Hospital quality and sustainability in question

The addition of speed of completion of new construction to the criteria for investor selection immediately calls into question the government's concern with the quality of Georgia's new hospitals. A related concern is raised by the fact that in all but one (No. 5) of the tenders completed thus far the investor has proposed to purchase significantly more beds than required by the government.[5] In fact, even the lowest bidder offered far more beds than were called for in the tender announcement. In tender No. 2, for example, the government specified that 140 beds be supplied by the investor. While the lowest bidder, Aversi, offered to purchase 190 beds, the winner, Aword, offered 415 beds--"thrice exceeding the government's expectations," according to Minister of Health Lado Chipashvili. In tender No. 2 the number of beds proposed for purchase was inversely proportional to the amount the bidder committed to spending on each bed. The winning bidder, Aword Capital [a development firm], proposed to purchase 415 beds at the cost of $31,111 per bed, while the lowest bidder, Aversi [a pharmaceutical firm] proposed to purchase 190 beds at the cost of $38,158 per bed. The most obvious explanation for this rather large discrepancy is a difference in the quality of beds intended for purchase.

Further, the terms of the tender agreements contain no provision to regulate investor procurement of new hospital beds or other equipment. In other words, the Georgian government ultimately has no control over whether Aword actually spends $31,111 on the purchase of a new bed as committed to in the tender agreement, or several thousand dollars less for a bed of inferior quality. Nor has the government established mechanisms for regulating investor procurement of materials used in the construction of new hospital buildings. According to Ministry of Economic Development representative Ilya Gotsiridze, the principle of free market competition is in itself sufficient for ensuring the quality of private sector hospital investments. According to public health specialist Giorgi Khechinashvili, however, the State Minister's office and the Ministry of Labour, Health and Social Affairs have plans to establish a joint commission to monitor the quality of new facility construction and investor procurement of hospital beds and other new equipment. Given that the tenders are already well underway, it seems rather late to just begin planning for the establishment of an essential regulatory body.

According to the terms of the tender contracts, the new facilities must function as hospitals for seven years from the date of conclusion of the tender agreement. After seven years investors are free to use the former state-owned property for any purpose they deem desirable. Thus far all of the winning bidders in the hospital privatisation program have been real estate developers whose long-term commitment to healthcare development in Georgia is unclear. There is justifiable concern that the new hospitals will prove unprofitable, in the regions especially. The majority will be supplied with just 15-25 beds; in rural areas, only hospitals with minimal capacity are planned. Even in regional centers, however, most new hospitals will have a capacity of less than 150 beds. According to Tamar Gotsadze, other countries' experiences have proven that hospitals with less than two hundred beds are rarely financially lucrative. Small rural hospitals will provide only the most basic emergency and urgent care services. In these facilities, just one of the fifteen or twenty beds will be equipped for more comprehensive care. According to Gotsadze this arrangement is shortsighted: without a proper regulatory system in place, she argues, investors are likely to expand their facilities for providing more lucrative types of care (i.e., increase their number of "general profile" beds) at the expense of less lucrative types. In the end, patients in need of less lucrative types of care may be left entirely without local access.

[5] While in each tender the investor is required, at minimum, to purchase a specific number of beds in a specific number of new hospital locations, bidders can improve their competitive edge by proposing to build additional hospitals (from the Hospital Development Master Plan's list of 100.) Indeed, as explained above, in most of the tenders thus far the number of hospitals/beds proposed for purchase served as the exclusive criterion for investor selection.

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The stipulation requiring investors to provide healthcare services on the site of the purchased property for just seven years raises at least two critical questions. First, what incentive will investors have to continue providing healthcare services after seven years? Second, if the market for healthcare services fails seven years from now due to poor financial planning and/or ineffective regulation on the part of the government, who will recover the cost? Who will assume responsibility for providing healthcare to the Georgian public?

Conclusion: Next steps for healthcare reform in Georgia

The Ministry of Economic Development plans to privatise the remaining state-owned hospital facilities within three to four months. After the hospital privatisations, the next major step defined in Georgia's healthcare reform strategy is the development of primary healthcare services, again under private ownership and administration (see Article 2.17 of the government's Hospital Development Master Plan.) At present, however, there is no formal plan in place for the privatisation of primary healthcare. The European Commission to Georgia and Armenia has invested significantly in primary healthcare 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.

The development of a public healthcare financing strategy is defined as the third step in the reform process. In the current system every Georgian citizen is covered by the government's universal basic healthcare package; those living in extreme poverty are provided with an additional, supplementary package. Most citizens, however, are unaware of the provisions of the universal package[6] and the appropriate fees for healthcare services. Medical personnel and hospital administration thus have little problem extracting extra-legal payments for services and, accordingly, out-of-pocket payments have quickly become unaffordable for most patients. Importantly, the hospital privatisation program contains no specific provisions to regulate types of services to be rendered in the new facilities, fees for services, or insurance/public healthcare financing options. There is widespread concern that the new "targeted financing" strategy, which will eliminate the universal package altogether, will benefit the most vulnerable (poverty-stricken, elderly, etc.) while pushing privately run healthcare services out of reach of the majority of the population. That is, the estimated 40 percent of Georgian citizens who fail to qualify for state support but cannot afford to purchase private insurance will be left without access to even the most basic healthcare services.[7] Further, there is concern that Georgia's health insurance industry is still too small to assume responsibility for financing the healthcare needs of the majority of the population.[8]

Georgia's current hospital infrastructure is in such a state of disrepair and its healthcare administration and financing system in such a state of crisis that it may convincingly be argued that healthcare here can only improve. Nevertheless, as in every other aspect of Georgia's reform planning, the public's trust in a privatised healthcare system must be earned, not assumed. New hospitals with attractive

[6] See "Main Direction 1" of the Ministry of Health, Labour and Social Protection's 2007-10 Medium Term Action Plan. Available at: http://siteresources.worldbank.org/INTECAPUBEXPMAN/Resources/BasicDataandDirections20072010.pdf
[7] The 40 percent estimate was provided by Tamar Gotsadze.
[8] According to Deputy Reform Minister Vakhtang Lezhava, it is estimated that extra-legal payments for services constitute nearly 84 percent of hospital transactions in Georgia today. With this figure in mind, he argues that medical personnel have effectively already privatised the hospital sector. In light of the excess out-of-pocket payments already being made for poor quality medical services, he claims, the purchase of private health insurance to cover the cost of high quality services is not expected to translate into a new financial burden for the average citizen.

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exteriors may help temporarily, but in the long term cosmetic changes alone will do little to improve the public attitude towards healthcare in Georgia. The combination of skyrocketing out-of-pocket payments for poor quality services and underdevelopment of primary healthcare services compels many to self-medicate and, in many cases, exacerbate illnesses. The next steps in Georgia's healthcare reform plan must improve primary healthcare services and develop trust in their gate-keeping role while systematically regulating fees for services to make healthcare effective, affordable and sustainable.

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