HEALTH SECTOR REFORM PROGRAM

(UR-0133)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Uruguay	
Executing agency:	Planning and Budget Office, in coordination with the Ministry of Public Health	
Amount and source:	IDB (Ordinary Capital): Total:	US$75 million US$75 million
Financial terms and conditions:	Amortization period: Disbursement period: Grace period: Interest rate: Inspection and supervision: Credit fee: Currency:	20 years 24 months 5 years variable 1% 0.75% U.S. dollars, under the Single Currency Facility

Objectives: The program will support the Uruguayan government in implementing a set of policy actions promoted by the Ministry of Public Health (MSP) to ensure the continuity of a gradual process of health sector reform aimed at resolving the sector's structural problems as part of a long-term vision. Specifically, the program will unify, integrate, and systematize the existing disperse body of regulations to create a basic set of shared ground rules and the foundations for a regulatory institutional framework that will foster the necessary strengthening of the public and private healthcare delivery systems and ensure complementarity between their efforts. This will create, over time, a competitive setting for service providers that will reduce costs and improve care quality while ensuring more equitable access to health services, especially for the more vulnerable population groups.

Description: This is a sector loan that will be carried out over a period of 24 months and disbursed in three tranches: the first for US$30 million, the second for US$20 million, and the third for US$25 million. The four areas of action are (see Annex II-1): (a) enhance the health system's regulatory framework; (b) strengthen the private healthcare delivery subsystem; (c) strengthen the public healthcare delivery subsystem; and (d) strengthen the MSP's technical capacity.

Enhancement of the health system's regulatory framework. Uruguay's current regulatory framework for health care institutions is fragmented and spread out among a rather inoperative, disjointed set of regulations, and there is no specialized unit for regulation and oversight. As a result of the gaps left by an inadequate regulatory and institutional framework, supplementary insurance plans have surfaced that are using risk selection to assemble coverage portfolios that target the high-income end of the market and families with attractive size, age, and gender makeups, to the detriment of the rest of the health system institutions, which *are* regulated. The absence of a specialized regulatory body has made it impossible to conduct preventive monitoring, which could prevent financial crisis in a given healthcare institution from spreading and ultimately triggering a system-wide crisis.

The policy actions planned for this area will help to unify, integrate, systematize, and implement a shared set of regulatory guidelines and oversight arrangements aimed at safeguarding the medium- and long-term sustainability of all institutions in the Uruguayan health system (including the supplementary insurance plans). This will help to prevent unfair competition and risk selection by providing a minimum set of financial safeguards for the system, protecting users' rights, disseminating financial and statistical information on the system, and promoting a care model focused on health prevention and promotion. Support will also be provided for establishing, within the MSP's new organizational structure, a decision-making level with full responsibility for supervision and oversight of both public and private healthcare institutions.

The expected impacts of these actions are: (a) a climate of greater market transparency that will lead to cost reductions and better quality care; (b) a regulatory body that systematically monitors healthcare institutions and takes preventive oversight measures; and (c) protection for users' rights, ensuring the coverage and continuity of healthcare services (see paragraphs 2.3 through 2.7).

Strengthening of the private healthcare delivery subsystem. The healthcare institutions known as *instituciones de asistencia médica colectiva* (IAMCs) are private, not-for-profit organizations whose structure is not conducive to enhancing efficiency through sound management and cost control measures. Their executive staff is not affected directly and proportionately by the consequences of their management decisions, there is a lack of delimitation between the policy-setting function and the management function, and there are clear conflicts of interest at institutions where physicians are both employer and employee. It is therefore not surprising that the private healthcare subsystem as represented by the IAMCs is in the throes of a severe financial crisis, with cumulative liabilities totaling around US$350 million; in fact, many of them have declared bankruptcy or have been the object of mergers and acquisitions, thus triggering a serious deterioration in the normal flow of care delivery to the population.

In this policy area, the program will lend support for the restructuring plans being formulated by the IAMCs with backing from sector authorities to resolve their current systemic financial deficit. The objective is to promote a more efficient management model, stabilize these institutions financially, and ensure the continuity of healthcare services for users on the basis of management agreements with the MSP, the Planning and Budget Office, and the Ministry for Economic Affairs and Finance, which will ensure the viability and long-term sustainability of these actions. Coupled with these restructuring plans, the program will also support the MSP's efforts to require IAMCs to adopt the model by-laws, which are essentially intended to separate policy-setting responsibilities from true management responsibilities, resolve conflicts of interest, and professionalize management.

The expected impact of these actions will be to restore the IAMCs to a sound financial footing, standardize care delivered to users, and bring about more efficient management of these institutions as a result of the new model by-laws (see paragraphs 2.8 through 2.12).

Strengthening of the public healthcare delivery subsystem. The main shortcomings of Uruguay's public healthcare subsystem can be traced to a budget that is set mainly on the basis of historical values for the entire network of public-sector establishments, guided by macroeconomic criteria and with few incentives for efficient management. The only cost-control mechanism that has been traditionally applied is overcentralized management of human and financial resources. Moreover, the Fondo Nacional de Recursos (FNR)—the government agency that funds higher-cost, more complex healthcare services—has been running an operating deficit and has liabilities of over US$70 million, owing to management inefficiencies and the cost-ineffectiveness of the services it finances.

Action in this policy area will support implementation of the modernization measures set forth in the recently approved 2000-2004 Five-year Budget Act, which empower the MSP to: (a) reorganize itself to separate out the functions of policy formulation and regulation (to remain under the MSP), financing (to be placed under the Government Health Services Administration [ASSE], and service delivery (to be assigned to specific service-delivery units); (b) authorize management agreements to bring private institutions in to manage public-sector service providers; (c) authorize the ASSE to allocate budget funds to the network of public-sector service providers under management agreements that link budget allocations to performance, i.e., more and better healthcare services for the population; and (d) allow private institutions to be charged for the cost of healthcare services provided to their beneficiaries. Support will also be provided for the efforts of the ASSE's authorities to move forward with launching a system to identify and classify users who are served by the public network, in order to charge private healthcare institutions for this care. Another important action within this policy area will be support for the restructuring of the FNR to modernize its management.

The planned actions in this policy area are expected to make the public healthcare subsystem more efficient and promote a management model geared towards meeting the needs of users of the public network by focusing State resources on low-income groups as the preferred beneficiaries of its action. The FNR restructuring plan is expected to bring about management enhancements and pare back the fund's operating deficit and levels of indebtedness (see paragraphs 2.13 through 2.17).

Technical strengthening of the MSP. Support will be provided for the MSP's Strategic Technical Strengthening Plan (PEFT), with a focus on three key avenues of intervention: (i) studies on technical feasibility and political viability, which are crucial to sustaining the gradual process of reform towards the MSP's long-term vision for the healthcare system; (ii) design and implementation of a public information campaign to consult and inform public opinion in support of the modernization process; and (iii) technical consulting services for the MSP's line units responsible for implementing the agreed policy actions.

The PEFT is expected to generate the necessary inputs to consolidate and deepen the process of structural change and to strengthen the MSP's core technical and management levels in order to guide and lead modernization of the healthcare system (see paragraphs 2.18 through 2.22).

The Bank's country and sector strategy:

The Bank's strategy in Uruguay is geared principally towards supporting the government's development programs and policies for the period 2000-2004, which are aimed at achieving sustained GDP growth and greater social equity within a framework of macroeconomic stability. In operational terms, the Bank's strategy focuses on supporting: (i) initiatives to boost the competitiveness of national output regionally and internationally, and promote private investment on the strength of comparative advantages and modern technologies, with a view to fostering healthy competition and broader insertion in regional and international markets; (ii) deepening of the process of modernization of the State and enhancing governability so as to reduce its burden on the economy, make it more efficient, streamline and focus its action, and reduce its impact on national output of goods and services; and (iii) efforts to enhance social well-being and equity by mainstreaming the most vulnerable groups into the development process and affording them a better quality of life.

Accordingly, supporting—through this program—the package of reforms being pursued by the MSP to improve overall management of the sector and foster more equitable access to healthcare services could have a direct impact on two of the strategic development thrusts that guide the Bank's action in Uruguay: modernization of the State and social well-being (see paragraph 1.46).

Poverty-targeting and social sector classification: This operation qualifies as a project that promotes social equity as described in the key objectives for the Bank's activity outlined in the report on the Eighth General Increase in Resources (document AB-1704). Under the guidelines set forth in that document and inasmuch as this is a fast-disbursing sector loan, the program cannot be classified as a poverty-targeted investment (PTI) (see paragraph 4.5).

Environmental and social review: As a sectoral operation, the program does not include financing for works or related management activities. Accordingly, it will not have an impact on the environment and it will not be necessary to take environmental protection measures during its preparation and execution (see paragraph 4.6).

Benefits: Most of the policy actions supported by the program share the same guiding principle, i.e., ensure more equitable access to health and more efficient management of the sector. As the health system's regulatory framework becomes more unified and integrated, with the concurrent strengthening and modernization of the management of its public and private subsystems, it will be possible to deliver more and better health services to the Uruguayan population and target public funds at those who need them most in terms of healthcare and social vulnerability (see paragraphs 4.8 through 4.11).

Risks: Owing to the complexity of transformations in a sector as sensitive as health, the main risk to the program is resistance from the health professionals' organization and its pressure to detain the process or modify it to benefit their specific interests. To mitigate this risk, there is consensus with the authorities as to the importance of maintaining and deepening dialogue with all relevant sector actors, while supporting the program with a public information campaign as a powerful tool to consult and inform the population and public opinion as to the true meaning of the modernizations, seeking to convert the system's current and potential users into key allies of health sector reform. There are also some minor risks, associated mainly with the high turnover of sector authorities and technical teams, unsustainability of modernization actions, and the financial crisis of this sector in Uruguay; steps to mitigate these risks are outlined in the proposal (see paragraphs 4.12 through 4.15).

Special contractual clauses: Release of each tranche will be subject to the borrower performing the following actions to the Bank's satisfaction: (i) maintain a macroeconomic environment consistent with the program objectives and the agreements reached with the International Monetary Fund; (ii) perform the policy actions agreed on for the respective tranche, as specified in chapter II and Annex II-1 hereto; (iii) maintain special accounts for the loan proceeds; and (iv) ensure that the MSP and its agencies that are participating in the program have the necessary resources to implement the policy actions agreed on for the three tranches (see paragraph. 3.10).

For the first disbursement, evidence is also to be presented of the following, as conditions precedent: (i) the interministerial committee, including its technical secretariat and the respective official representatives, has been established and is functional; (ii) the program execution agreement has been signed by the Planning and Budget Office and MSP, stipulating *inter alia* that the Technical Advisory Office on Social Policy and the International Project Coordination Office are the offices responsible for program execution in their respective spheres; and (iii) that the technical unit, with its technical team, has been set up under the International Project Coordination Office (see paragraph 3.11).

Exceptions to Bank policy: None.

Procurement: The proceeds from this Bank loan will be used to finance a project to support the borrower's national public sector, which includes the importation of eligible goods. The Bank's applicable sector-lending procedures will be followed, which do not require international competitive bidding.