Ukraine spends considerable public and private resources on health care, but health outcomes are poor.

The health financing system is inefficient and undermines the quality of care. The budget emphasizes inpatient facilities and hospital beds, which crowds out resources for outpatient facilities, primary care, and disease prevention.

The health care system needs to embrace major shifts: (i) from in-patient curative to preventive health care, (ii) from input-based to output-based financing, and (iii) a new transparent health benefit package.

Outdated health system results in poor health outcomes

The health system in Ukraine has not changed much from Soviet times when it was mainly designed to cope with acute episodic care. Health care needs of Ukrainians today mostly relate to non-communicable diseases (NCDs), which require behavioral changes and health promotion.

Health outcomes in Ukraine today are poor. Life expectancy at birth in Ukraine is 71 years, more than 10 years less than the EU average. The adult mortality rate is significantly higher than the average for Europe, especially for men the mortality rate is 65 percent higher. NCDs are the main cause of morbidity and mortality: cardio-vascular diseases and cancer accounted for 81 percent of all deaths in 2013-2014. Over 25 percent of the adult population, 18 to 65 years of age, has a chronic disease or condition; around 7 percent have multiple (three or more) chronic diseases or conditions. In addition, Ukraine has the highest HIV and tuberculosis prevalence in Europe.

Ukrainian citizens are dissatisfied with inefficient and poor quality of health care services. While the need for health services is high and widespread, very few Ukrainians positively assess the quality of care. In 2015, about 78 percent had been ill at least once and about 79 percent sought medical care, which makes it clear that access and quality of care are relevant for all. However, only 10 percent of Ukrainians have a positive opinion of the quality of care; 85 percent think the health services are of bad or very bad quality. Most also think the quality has declined in the past five years and will continue to deteriorate. About 15 percent of households in need of care could not access the necessary services because of both economic (79 percent) and physical (13 percent) barriers. Health reform is regularly marked by citizens as the top priority for the government.

Health reform is important both for the well-being of Ukrainians and their economic development prospects. Over 80 percent of deaths of working-age men were from illnesses that could have been treated through better primary care. Poor health outcomes not only directly impact the well-being of citizens but also undermine their productivity. Studies indicate that an increase in life expectancy by 1 year can help raise GDP per capita by about 4 percent. The estimated number of productive life years lost due to premature death and disability is 5.9 million years annually (among the 45-65 age group) in Ukraine.

Inefficient resource allocation undermines fiscal sustainability and service delivery

Total public and private health spending—7.6 percent of GDP—is above the global average for Ukraine’s income level. Public health spending has averaged 4 percent of GDP in recent years and is far above the global average for countries at Ukraine’s income level. At the same time, households co-finance health expenditures at the same level as government—out-of-pocket payments reached almost 50 percent of total health expenditures in 2015, among the highest in Europe. Public financing goes mostly to support a large network of health facilities and staff but results in poor health outcomes.

Health allocations are skewered towards inpatient care, which is not effective for controlling avoidable deaths. Inpatient institutions absorb more than 60 percent of the total health budget, while only about 10 percent is allocated to specialized outpatient facilities, 9 percent to primary health care, and less than 2 percent to disease prevention.

The current mechanism for allocating resources creates wrong incentives—financing inputs instead of services. Currently, the budgets for inpatient facilities relies heavily on the number of beds. Such a system does not provide any incentives for more efficient use of budget resources or better patient treatment. As a result, Ukraine still has about 40 percent more hospital beds per capita than the EU average. This infrastructure consumes most of the available funding while often providing only very basic services. Such a system also undermines the adequacy of health treatment, leading to unnecessary increase in hospitalization rates and length of stay in inpatient facilities to justify the oversized hospital network. The average length of stay in Ukraine was 11.7 days in 2013, while the average for the European region was 8.6 days.
Current expenditures comprise about 90 percent of the total health budget, squeezing out any investment in developing a modern health care infrastructure. Salaries of medical personnel is the largest item of health expenditures comprising over 50 percent of the health budget in 2015, while over 37 percent is spent on goods and services. Public procurement in the health sector has been a major source of inefficiency and corruption. As a result, very few resources are left over for much needed capital investment to replace outdated equipment and improve facilities.

Figure 1. Life Expectancy, years

![Life Expectancy Graph]

Source: World Development Indicators, WHO, 2015

Figure 2. Hospital Beds per 1,000 Population

![Hospital Beds Graph]

Options for health reform

In 2016 the Government adopted a health reform package. This includes: (i) transforming health financing (including creating a national purchasing entity—Ukraine National Health Services (UNHS); (ii) modernizing primary health care; (iii) improving access to pharmaceuticals; (iv) addressing non-communicable diseases; and (v) creating an integrated National Public Health Institute for disease control and prevention. The package of reforms was approved in October 2016, and the current leadership of the Ministry of Health is taking active steps toward implementing the reform measures.

The health reform needs to embrace paradigm shifts, not small incremental fixes. The overarching goal of the reform is to create an equitable health system that is responsive to clients, transparent, efficient, and effective in preventing and controlling NCDs. The needed shifts include the following transformations:

- **From predominately curative to more focus on preventive health care.** This would require: (i) scaling up preventive and primary care, and adopting a systematic approach to NCD prevention and management; (ii) strategic investment in health care infrastructure, reducing overcapacity, re-profiling the hospital sector, and modernizing remaining facilities for better quality care; and (iii) introducing transparent procedures for managing public funds for health.

- **From input-based to output-based financing.** This would require changing the current input-based financing to performance-based payment for specialized care and capitation for primary care. Under such a principle, money would follow the patient instead of inputs.

- **From the so-called free-care-for-all with significant patient informal payments to a transparent benefit package.** This would involve reducing out-of-pocket payments by clearly defining the government’s guaranteed benefits package, allowing copayments, but protecting the poor and chronically ill.

The health care system needs to be fiscally affordable and consistent with an efficient allocation of public finances. While some of the health reform measures may require additional fiscal resources for investment in the short run, over the medium term measures related to optimizing the hospital network and rightsizing staffing and the wage bill should create more fiscal space for much needed capital investment to improve the quality of medical facilities. Moreover, the public procurement system still needs to be refined. A separate public agency for procuring pharmaceuticals and medical products requires strong anti-corruption mechanisms and investment in staff capacity.

Contact info: Feng Zhao (fzhao@worldbank.org), Karlis Smits (ksmits@worldbank.org), Anastasia Golovach (agolovach@worldbank.org), and Faruk Khan (khan5@worldbank.org)

(380 44) 490 66 71 www.worldbank.org/ua