Indonesia Public Expenditure Review Launch

2020

Health

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Australian Government

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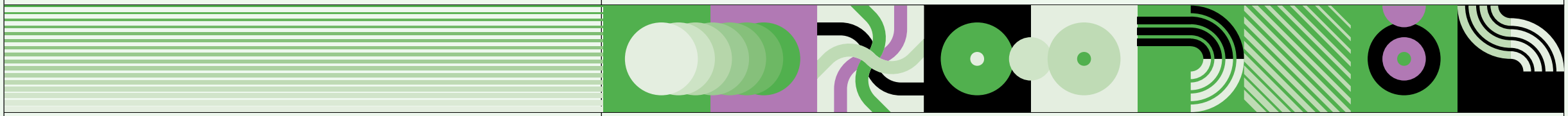


Outline and Key Messages

How effective has the health sector been in meeting its goals?

- Indonesia has achieved significant progress in health coverage and financial protection.
- But significant gaps remain, including regional and income-related inequalities.

Is the level of health sector spending adequate?

- Public health expenditure is well below regional and lower middle-income averages…
- …and JKN's financial sustainability is under threat.

How efficient is public spending in the health sector?

- The two biggest sources of health financing at the district level are DAK and JKN, but neither are being spent efficiently.
- Weak governance and accountability, and fragmented information systems has made it difficult to link health sector spending with performance to ensure better value for money.
- Achieving universal health coverage will require more and better spending.
- Indonesia needs to introduce reforms to raise additional revenue, manage expenditure growth, and improve governance and accountability.

How effective has the health sector been in meeting its goals?

Indonesia has achieved significant progress in health coverage and financial protection

- The Ministry of Health's (MOH) 5-year Renstra 2015-2019 states the sector's main objective as **improving** the **health status** of its population **by providing universal health coverage (UHC)** and **financial protection** for all.
- The Landmark legislation in 2014 on *Jaminan Kesehatan Nasional* (JKN) or National Health Insurance has helped:

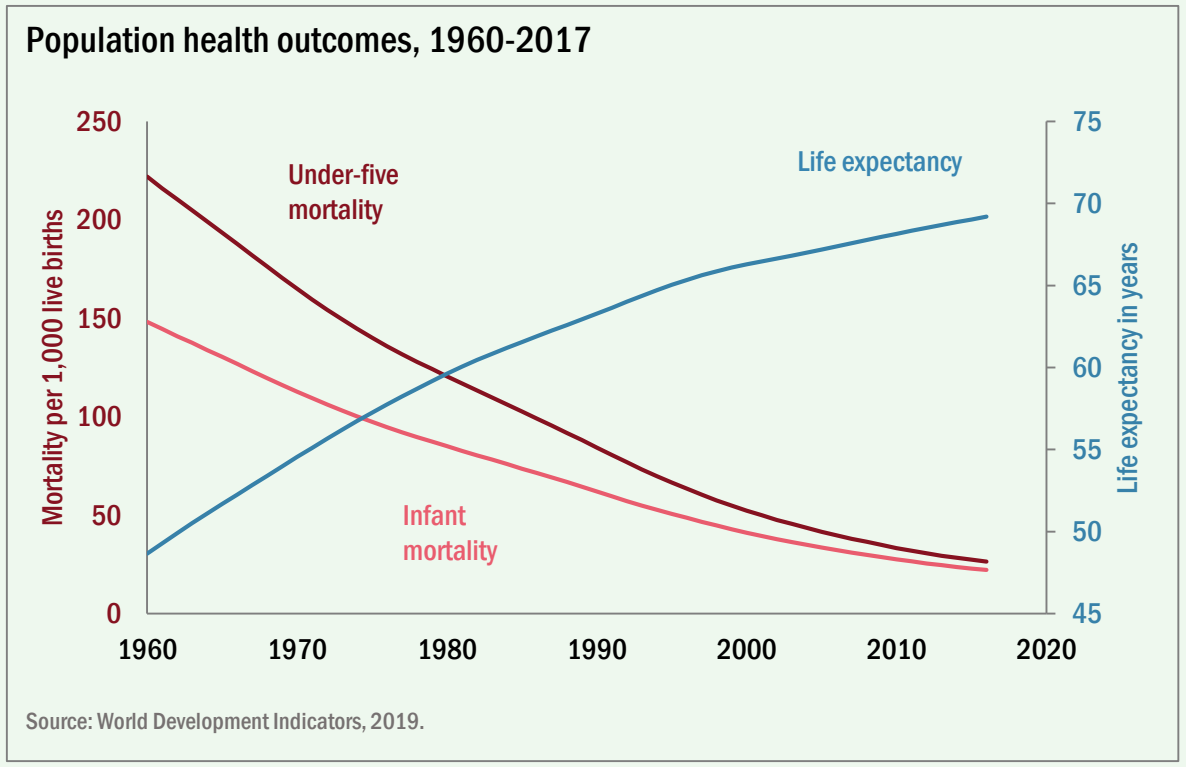
Expand coverage to reach 223 million people – or 83% the population (although only 75% are active)

Consolidate 300+ risk pools entitling every Indonesian to the ***same benefit package***

Decrease out-of-pocket health expenditures as the main source of health financing from 47% to 34% in just 4 years

But significant gaps in coverage remain…

Indonesians have become **healthier** over the past several decades…



…**but** are now faced with both **an unfinished** Millennium Development Goal **agenda and a growing non-communicable disease** burden

An MMR of 305 per 100,000 live births or
1 maternal death every 1.4hours

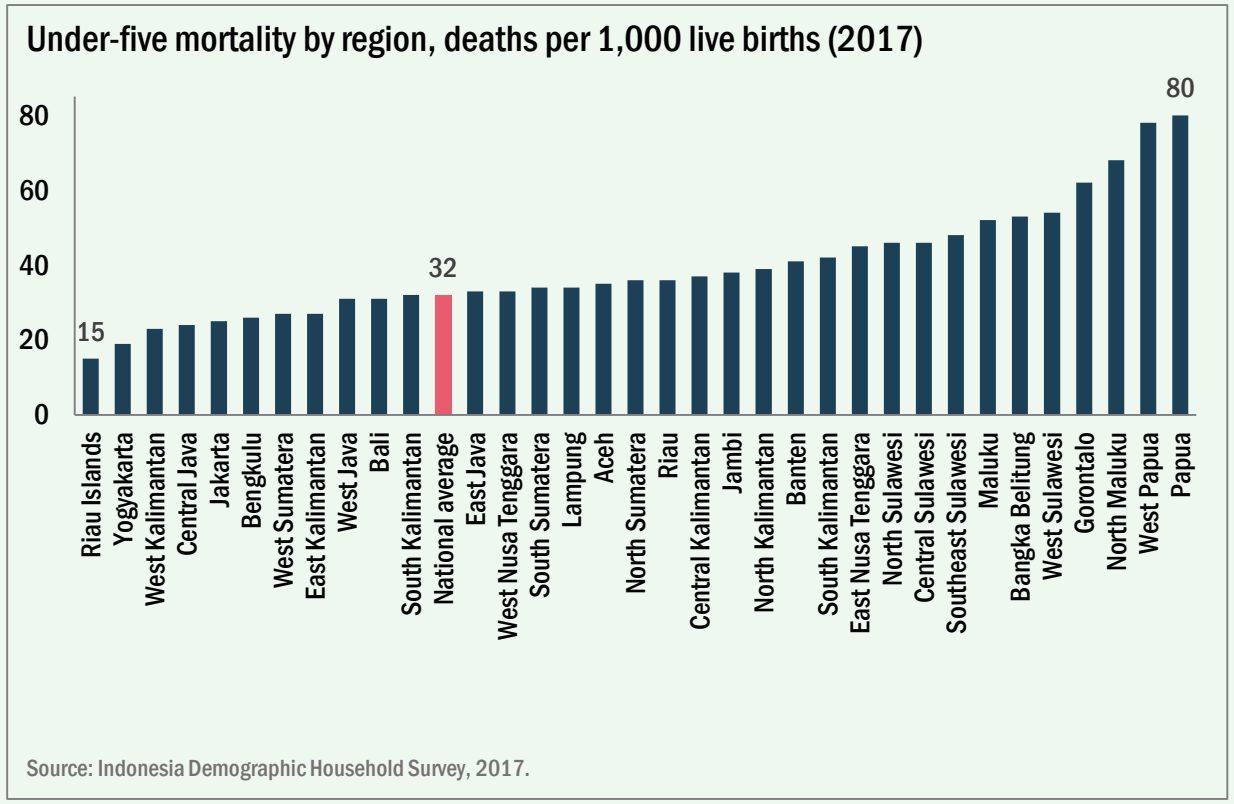
The 3rd largest contributor to the global TB burden with 842,000 new cases in 2017 and 116,000 TB deaths

8 million or 1 in 3 stunted children

Epidemiologic transition: emergence of non-communicable diseases and chronic conditions related to socio-demographic and lifestyle

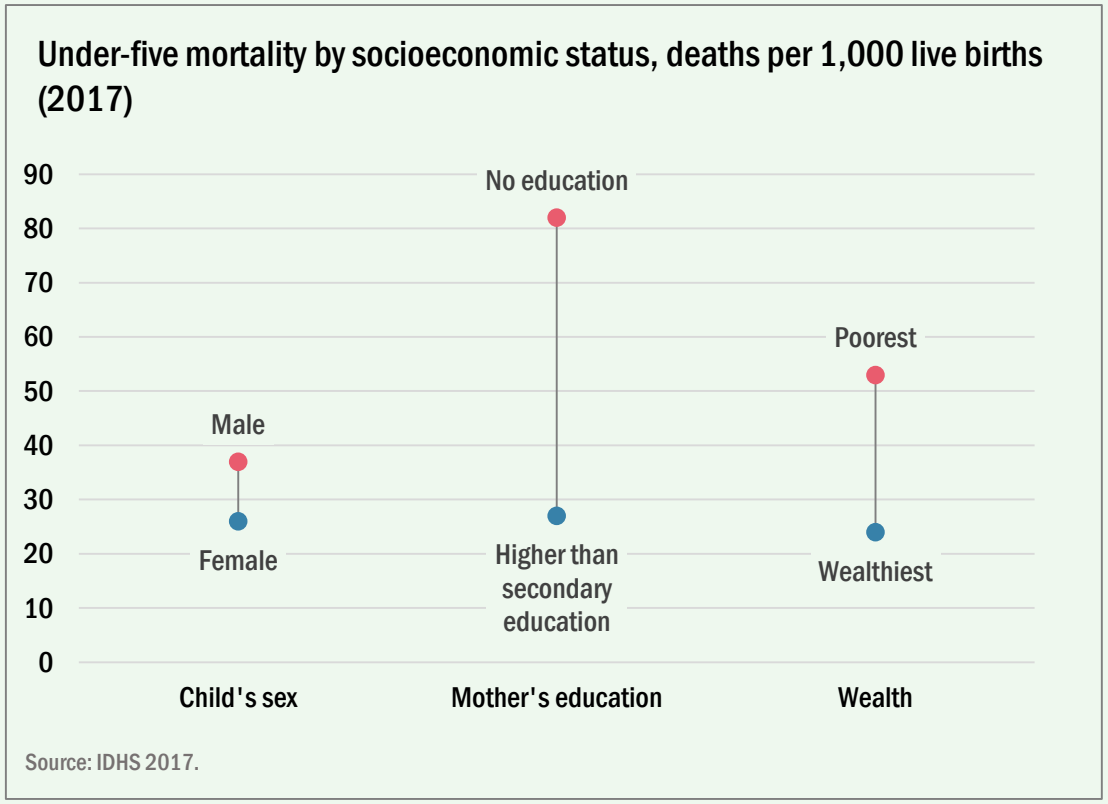
...including regional and income-related inequalities

National averages mask **wide variation across regions**…



Source: Indonesia Demographic Household Survey, 2017.

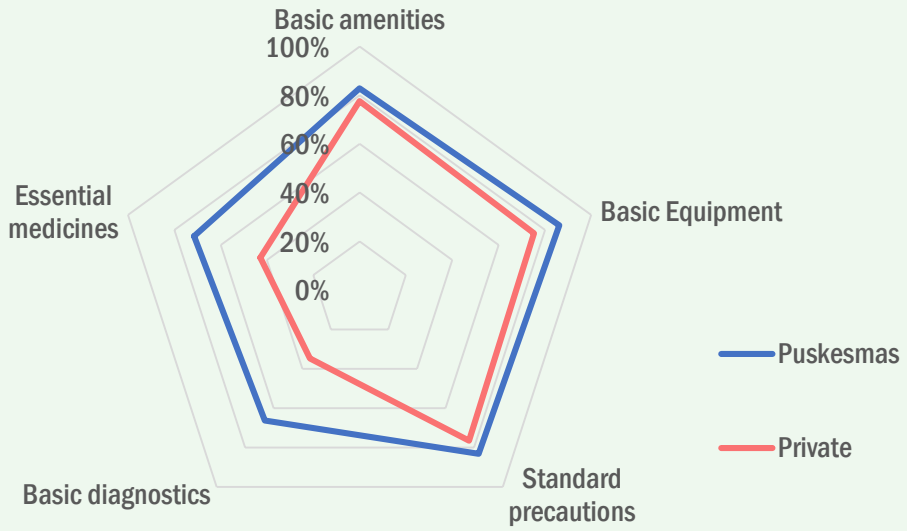
…**and socioeconomic status**, especially mother's education and income.



Source: IDHS 2017.

Quality at the primary care level is poor pushing care up towards better-resourced hospitals

Supply side readiness at the primary care level, 2016



Source: QSDS 2016, World Bank staff calculations. Note: General service readiness index is interpreted as facilities having on average X percent of all tracer items.

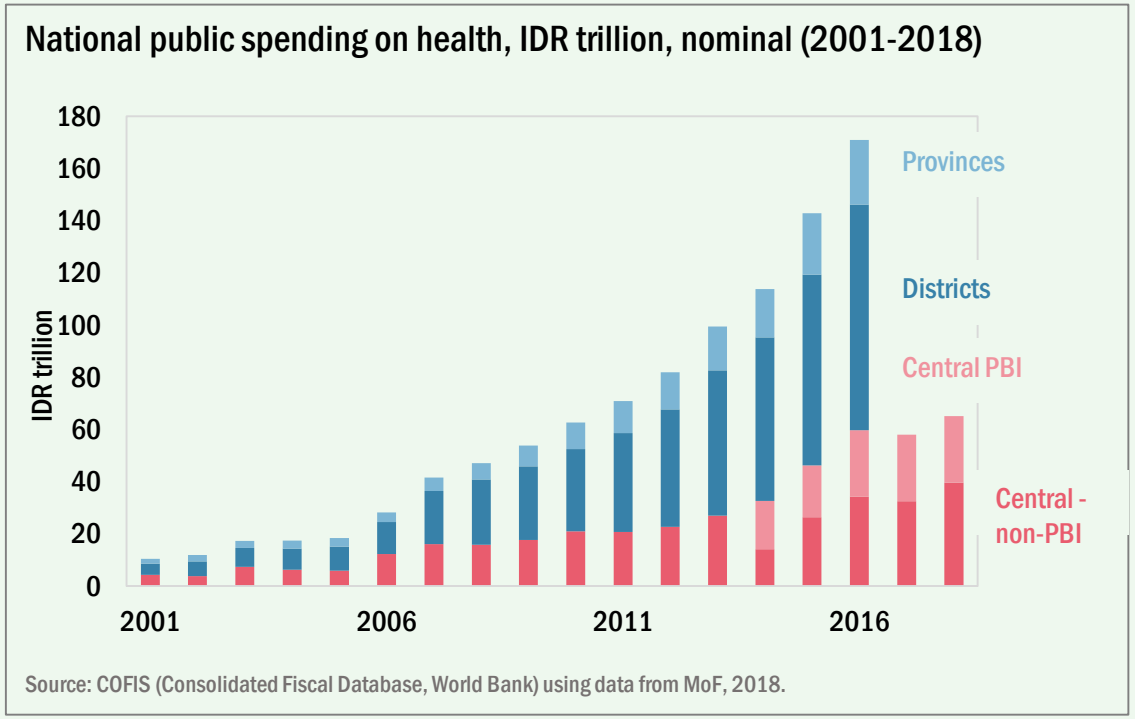
Primary health care facilities lack basic diagnostic tests, essential medicines, and diagnostic and treatment guidelines, especially in the private sector

Private facilities tend to focus less on diagnostic capacity and low-margin public health and preventative conditions and more on treatment

Is the level of health sector spending adequate?

Despite the prioritization of health, the sector remains under-resourced

While government health expenditure (GHE) **increased by 22%** between 2001 and 2018…



…**it is still less than what similar countries** spend. Indonesia would have to **double its per capita spending** to finance a minimum package of essential UHC services.

More than **two-thirds** of GHE occurs **at the subnational level**.

And JKN's financial sustainability is under threat

JKN has incurred a cumulative **deficit of IDR 31.7 trillion** (US$ 2.2 billion) as of end of May

Contribution compliance leads to lower than expected revenues…

70 million Indonesians remain **uninsured** mostly among the informal sector

Regional governments do **not always comply** with cigarette tax contributions to JKN

As many as 7,807 business entities did not register as members of BPJS-K and 25,326 companies **manipulated** employee wage **data**

…and open-ended hospital expenditures drive the deficit.

In JKN, PHC is paid by **capitation –** a fixed amount covering 144 competencies – **incentivizing over-referrals and under-delivery** in weakly monitored and under-resourced systems.

Instead, payment to hospitals is essentially open-ended, **incentivizing waste and unnecessary care**.

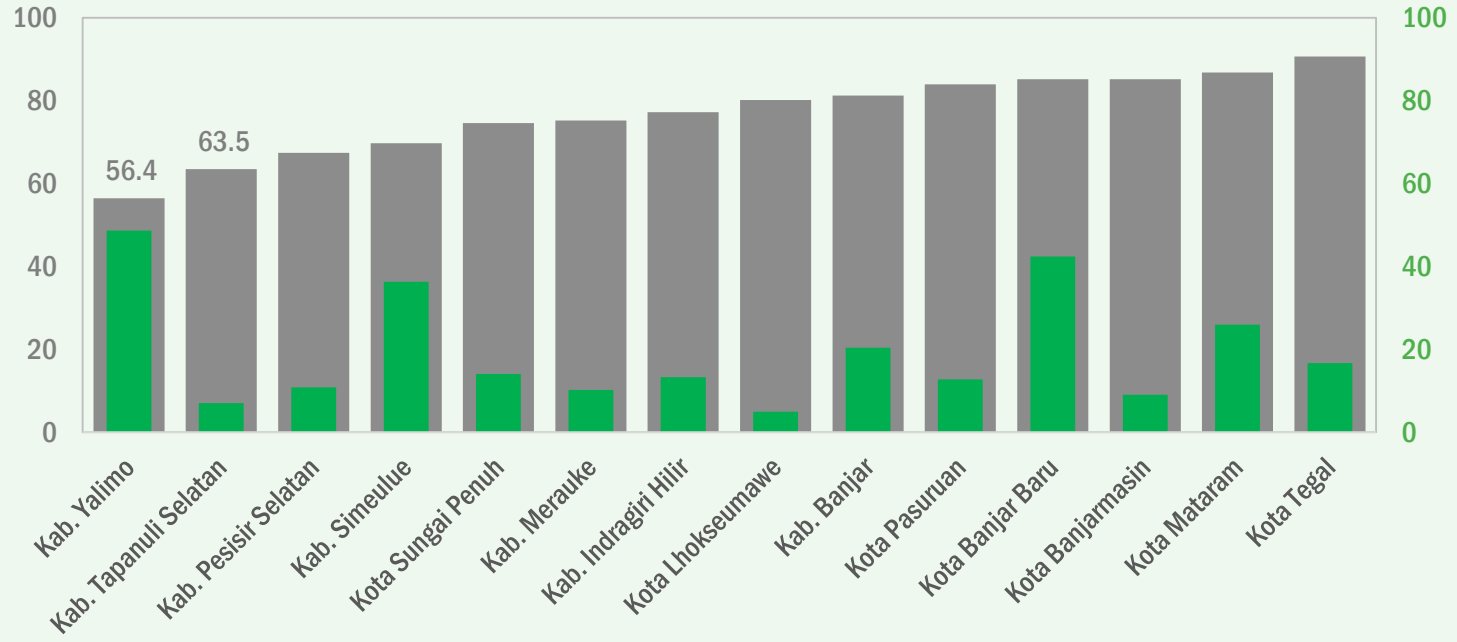
In 2018, while only **a third of all utilization** took place **in hospitals**, hospital expenditure **accounted for 84% of JKN expenditures**.

How efficient is public spending in the health sector?

DAK transfers are not based on need or performance...

DAK spending – used to purchase infrastructure, medical equipment, and drugs – does **not** appear to be **correlated with** the level of **supply side readiness** which measures whether facilities are able to provide basic health services.

Supply side readiness (left) and DAK spending (right) in % at the primary care level (2015)



Source: QSDS 2016 and MOH DAK data 2013-2105, World Bank staff calculations. Note: General service readiness index is interpreted as facilities having on average X percent of all tracer items.

For example:

In Kab. Tapanuli Selatan, on average, facilities only have 63.5% percent of all tracer items for basic diagnostics, equipment, and essential drugs yet they receive little DAK.

Yet, Kab. Yalimo receive much more DAK but has even less of basic items to run a facility.

There is **no integrated system** that can report on facilities' human resources, medical equipment, drug availability, and accreditation status **to inform resource allocation.**

...and inefficiencies in JKN expenditure account for losses of up to IDR 8 trillion in the hospital sector alone

Globally, the **potential efficiency savings from unnecessary treatment and abuse at hospitals** in middle-income countries has been estimated at **between 5% to 11% of total spending**

Applied to JKN hospital-based expenditures this yields potential efficiency savings between IDR 4 and 8 trillion, and likely higher…

BPJS-K has limited power to incentivize effective service delivery, efficient provider behavior, and higher quality care

BPJS Kesehatan
Badan Penyelenggara Jaminan Sosial

Ensuring good fund management and **financial sustainability** requires that BPJS-K have a **bigger say in** how **contribution rates, benefit packages, and payment** rates are set

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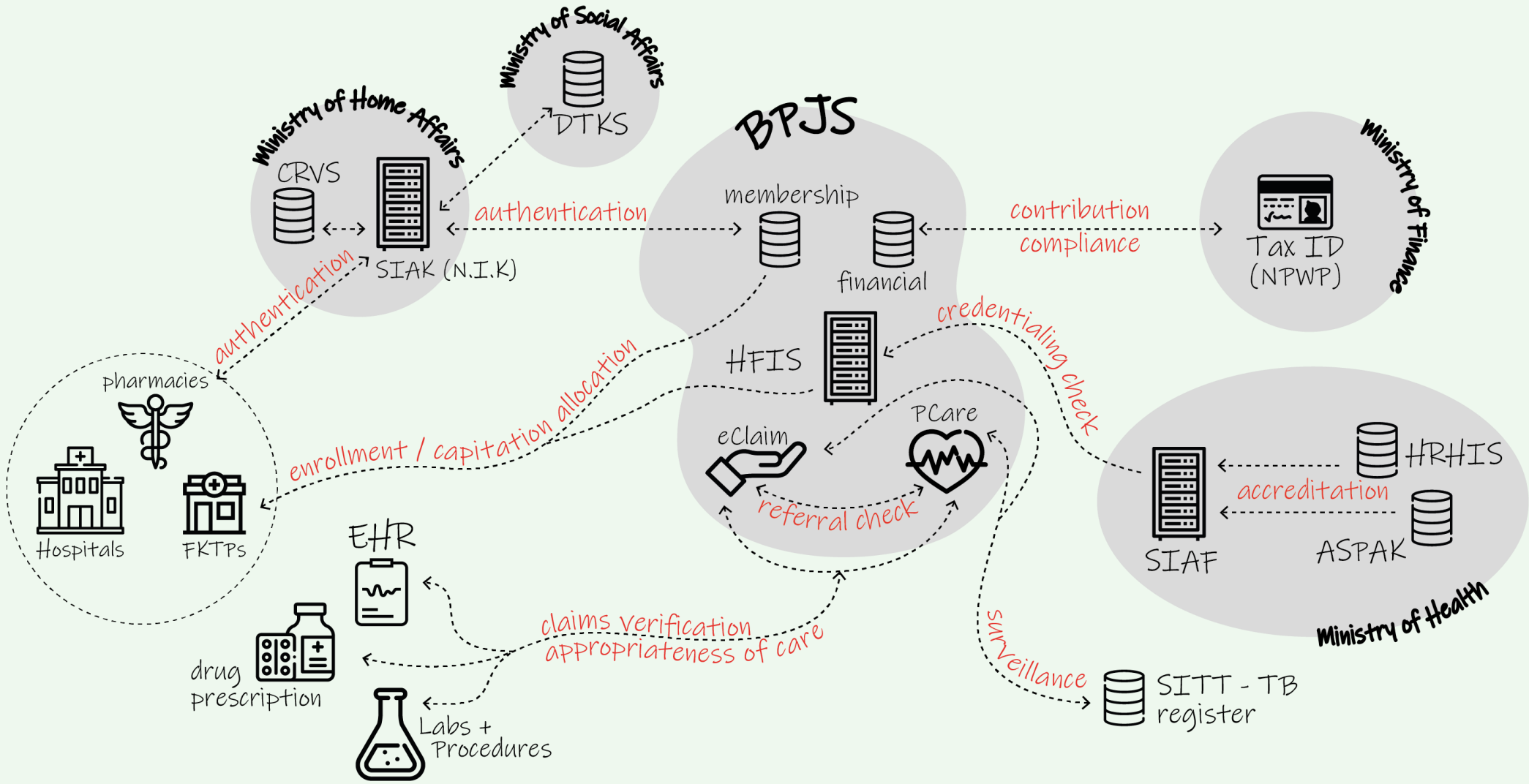
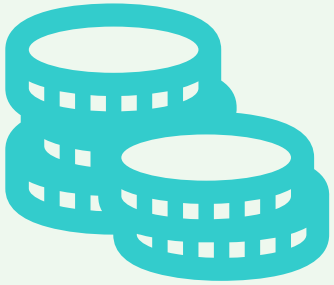
Ensuring **quality care** requires the ability to monitor that providers are delivering appropriate care. This **necessitates greater collaboration between BPJS-K and the MOH**

As with DAK, fragmented information systems and reporting compliance make it difficult for BPJS-K to manage funds efficiently



What can the government do?

Introduce reforms to...

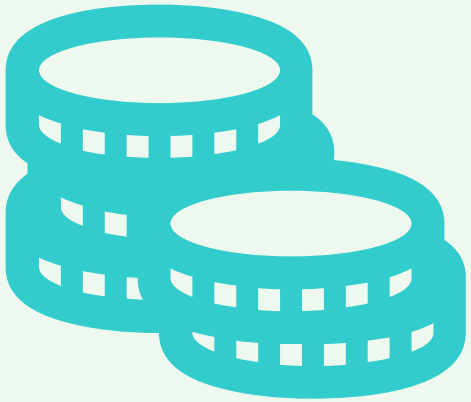


Raise additional revenue for BPJS-K

Manage expenditure growth

Improve governance and accountability

Raise additional revenue for BPJS-K



Improve contribution compliance

Expand membership

Manage expenditure growth

Assess whether facilities are able to deliver all services included in the benefits package

Refine DAK allocations based on facility readiness

Refine capitation based on facility readiness

Introduce a ceiling or hard budget on hospital expenditures

Improve claims management

Improve governance and accountability

Develop diagnostic and treatment protocols including referral pathways

Improve the quality and use of data

Gradually move towards a whole-of-government digital data governance solution

Strengthen the purchasing role of BPJS-K

Summary of recommendations

To achieve universal health coverage, Indonesia needs to…

STRENGTHEN PRIMARY CARE

RAISE REVENUE	MANAGE EXPENDITURE GROWTH	IMPROVE GOVERNANCE & ACCOUNTABILITY
⊙ Expand membership ⊙ Improve contribution compliance ⊙ Reinstate the tobacco simplification roadmap	⊙ Assess whether facilities are able to deliver all services included in the benefit package and adjust payment accordingly ⊙ Refine DAK allocations based on facility readiness ⊙ Refine capitation based on facility readiness ⊙ Introduce ceiling or hard budget on hospital expenditures ⊙ Develop and use claims verification/adjudication manuals including fraud detection protocols to improve claims management	⊙ Strengthen the purchasing role of BPJS-K ⊙ Develop diagnostic and treatment protocols including referral pathways ⊙ Harmonize regulations around the use of capitation funds ⊙ Improve the quality and use of data ⊙ Gradually move towards a whole-of-government digital data governance solution