

Spotlight on Equity: ISSUE 4

How fair is the way that major regional hospitals in Kenya receive funding?

Kenya provides high-level hospital care in its national hospitals and in a set of twelve regional hospitals. These hospitals, known as Level 5 hospitals, include the former 7 provincial hospitals in Embu, Garissa, Kakamega, Kisumu, Mombasa, Nakuru and Nyeri, and four additional high volume facilities in Meru, Machakos, Thika and Kisii towns. These facilities provide services to citizens in multiple counties but are managed by the individual counties that host them. In order to help the host counties pay for regional services (i.e. for residents of other counties), a Level 5 conditional grant was created in 2013. The value of this grant is KSh 4 billion in 2016/17.

How is this grant shared among the facilities? The criteria used for allocating the grant in the last couple of years has been the hospital bed occupancy rate. Bed occupancy rate is a daily midnight count of occupied beds in a facility averaged over the year. It is intended to measure only one of our principles: the need principle. However, it falls short for several reasons.

Need

First, when sharing resources among hospitals, we need to look at their relative needs. In other words, how much does a hospital need relative to other hospitals? The occupancy rate is not a good measure of relative need, because it ignores the main driver of cost, which is the difference in the actual number of people treated in each hospital. For example, while Nakuru and Meru hospitals have the same occupancy rates, the number of beds in Nakuru is almost double the number of beds in Meru. This means that the Nakuru facility actually treats twice as many patients, yet it receives a similar allocation to that of Meru. In other words, using bed occupancy rates actually gives much less per person to counties with many more sick people.

A second problem is that the formula only captures one aspect of need, which is the need for inpatient care. This actually encourages hospitals to provide more inpatient care, rather than trying to get patients out of the hospital and encouraging the use of outpatient care whenever possible. This may lead to patients being hospitalized when they do not need it, which in turn exposes them to additional disease. This cannot be considered equitable. Nor does the formula consider any other aspect of need, such as the relative infrastructure or staffing needs of different facilities. For example, some facilities might need more capital investment than others, regardless of bed occupancy rates.

Beyond Need

Another weakness of the L5 formula is that it does not consider principles of capacity, effort, or efficiency. Hospitals collect revenue by charging for healthcare services and use this revenue to fund some of their operations. The level of collection and the way in which these collections are used could also be considered in the allocation formula, but it is not. Hospitals are therefore not encouraged to maximize their collection efforts or spend this money effectively.

Summary

Overall, the Level 5 hospital grant is not fairly distributed. It should be revised to better measure the actual need for services by looking at a hospital's share of all inpatient visits in regional hospitals, rather than the bed occupancy rate. It should also take into account outpatient services and possibly the collection and spending of user fees (sometimes called "facility improvement funds") to encourage better collection and use of these funds.

What does equity mean?

Sharing resources fairly means basing our decisions on widely accepted principles. This series of pamphlets looks at those principles and then applies them to practices of resource sharing in Kenya. How fair are our current approaches to sharing resources? You decide.

Most people share the idea that creating a more equal society may require us to treat people differently depending on their differing circumstances. This idea is the basis for the concept of equity. From this notion, we can develop some additional principles of fairness.

The need principle

The need principle states that people should be treated according to their needs. If we are distributing resources for health care, a person who is sick should receive more than a person who is healthy. This examples relate to the population's need for services and the immediate costs of providing them. For example, if it costs Ksh 100 to provide health care to one individual for a year, and we have 10 sick individuals in one area and five in another, we will want to give more to the area with 10 people. However, we may also need to take into account the starting position of the two areas. If the area with ten people has a well-equipped hospital, and the area with five people lacks a facility, then need would suggest we may need to give some additional funding to the area with fewer sick people to "catch up" to the area with more.

The capacity principle

Capacity is the idea that we should not do for people what they can do for themselves. A rich person can afford to pay for more of their own services than a poor person. Assuming that both a rich and a poor person are sick (they have the same **need** for health care), we would be likely to give more to the poor person because they have lower capacity to meet their needs.

The effort principle

Effort is the idea that we should reward, or at least not punish, people who do more for themselves with what they have. Consider two poor people who are both sick. They have the same needs and the same capacity. One of the poor people decides to sell his second cow to pay for his health care, while the other keeps both of his cows and requests help from the government. We

would feel that the first person was making more of an effort to cater for his own needs given his capacity, while the second was not. We would be uncomfortable giving money to the second person while giving nothing to the first, because this would reward people who do less for themselves.

The efficiency principle

Capacity and effort both relate to how much people have and how much they can generate for their needs. Efficiency is about how people use the resources they have. Returning to our poor, sick farmers: one farmer may use the funds they have to purchase highly effective medicines at a low price, while another may choose to spend funds on ineffective procedures at a clinic known for over-charging patients. We would likely feel that we should not give as much money to someone who chooses to spend it on ineffective or over-priced services as we should to someone who uses money prudently.

The basic minimum principle

The principle of a basic minimum is that when we distribute funds, we may look at need, effort, capacity, efficiency, and even other principles not discussed here. After doing so, we might end up deciding that all of the funds should go to one person, or one community or one region. The basic minimum principle would tell us that we should first ensure that everyone gets some small share of the total before we distribute the rest according to other principles. Many people would feel that everyone should get at least a token from the resources available, so that everyone feels that they are part of the system and receive something from it.

The fair process principle

The fair process principle emerges from the realization that the principles above may conflict with one another, and that balancing them is a difficult task. There is no one right way to do this. For example, we might find that the person with the greatest needs makes the least effort. What should we do in this case? We will want to give them more due to their needs, but we will want to give them less due to their lack of effort. As there is no one correct solution to this problem, the only way to address it is to ensure that we make the decision through a fair and transparent process in which people give their reasons, these are thoroughly debated, and a decision that people may disagree with, but can agree is well-reasoned, is reached.