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It actively seeks to cooperate with German and International partners in order to further enhance the developmental effectiveness and efficiency of its activities.

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Preliminary remarks

This Working Paper was written in September 2007 by the Sector and Policy Division for Health, Education and Social Protection at KfW Entwicklungsbank. It summarises the experience of German Financial Cooperation with voucher schemes as a particularly successful results-oriented approach (output based aid – OBA) in the health sector. The high poverty and MDG relevance of this innovative approach and the direct contributions made to strengthening the health systems have met with considerable interest among national and international partners. German Financial Cooperation has provided crucial impetus for this new programme approach, which can be transferred to other countries as well as to other subject areas.

Strategic thinking behind new financing models for German Development Cooperation in the health sector

Health sector financing has for many years been a focus of German Development Cooperation and is intended to contribute to achieving the Millennium Development Goals. In accordance with these internationally agreed Millennium Development Goals (MDGs), the aim is to halve the proportion of poor people in the world between 1990 and 2015. A key consideration is how to improve the health situation of poor people. This is also evident from the fact that three of the total of eight MDGs relate explicitly to the health sector.

The generally positive evaluation of the health projects financed by KfW Entwicklungsbank has revealed three areas of challenge:

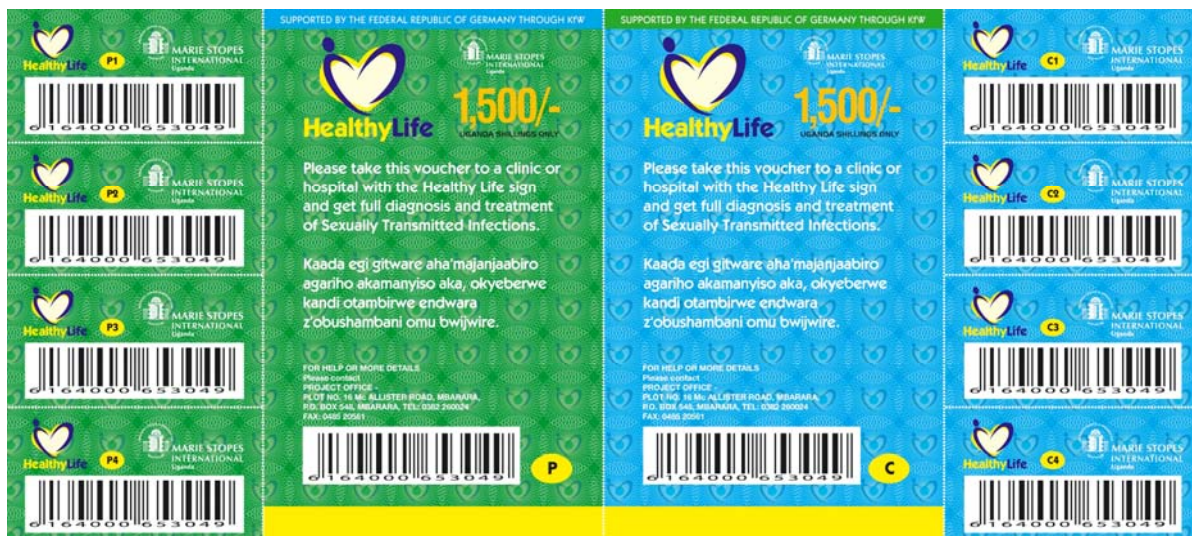
- The partners often expect that only the health facilities in the state sector should benefit from the projects as the latter are agreed with the government of the developing country in question. In some cases the state health services have not made sustainable and effective use of the support provided. At the same time there are important health service providers working in the private sector or as NGOs in developing countries; their services could also be improved by bilateral development projects.
- Projects in the health sector are intended to benefit poor people, in particular. However, it is often difficult to ensure that the facilities supported are mainly used by the poor people.
- Instead of financing specific health services, the projects are often only used to finance the facilities needed to provide those services, e.g. operating rooms or administrative systems. It is frequently impossible to ensure as to whether the facilities financed are then actually used in accordance with the criteria agreed upon and whether the desired services are provided for the planned target groups.

Various innovative project approaches are designed in such a way as to offer solutions for these challenges with a view to making it easier to achieve the developmental objectives. **Output based aid (OBA)**, which has been successfully introduced in other sectors, has proved to be a particularly effective method. Instead of financing specific inputs without being able to check their use, targeted outputs are financed. In the case of health programmes, voucher schemes are one option. Vouchers are issued to particularly needy sections of the population free of charge or at subsidised prices and these can be handed over to accredited public or private providers to pay for defined health services.

Voucher schemes constitute an OBA approach that is particularly suitable as a means of solving the aforementioned challenges in the health sector:

- As the vouchers cannot be redeemed only at public but also at non-government or private health providers, this **enhances competition between the various providers**. The monitoring mechanisms associated with this instrument allow the **quality of the services provided to be enhanced**.

- Entitlement to use the vouchers can be verified on a case-by-case basis. This makes it possible to ensure to a far greater extent that only the particularly needy target groups make use of the subsidised services. By concentrating on poor people, voucher systems make an outstanding contribution to **improved access and utilization of quality health services for the economically disadvantaged.**
- As vouchers are not used to finance buildings, equipment or medicines but only services that are actually provided, **efficient use is made of development aid funds.**
- Experience to date clearly shows that these approaches can be an important **system-building step to establishing health insurance schemes** and hence to the progressive development of social security systems.



“Healthy Life” voucher in Uganda

The following section presents the conceptual basis of the voucher schemes. The current experience of German Financial Cooperation with output based aid measures in the health sector is then summarised. KfW Entwicklungsbank has given important impetus for a new programme approach that can be transferred with a positive effect to other countries as well as to other subject areas. Experience of actual implementation to date has met with great interest among key international partners and can be used to make further improvements to the design of future voucher schemes.

The basic concept of voucher systems – OBA in the health sector

The concept of output based health projects requires particularly careful project planning in order to achieve the advantage referred to above. Only if various players work together in a coordinated manner can the desired results be achieved. In this connection the following players can be distinguished:

- beneficiaries of the health services defined,
- the organisation which determines the entitlement to use the subsidised health services,
- the voucher distribution system,
- the health service providers,
- the organisation responsible for accreditation of providers and quality assurance,
- the organisation which settles claims, and
- the agency responsible for advertising measures to increase demand for the subsidised health services.

The first step is to determine the health services to be supported by the project. For example, in order to reduce maternal mortality rates pregnant women are to be offered antenatal examinations and the opportunity of giving birth with medical supervision in health care facilities. An important element of the design of the voucher schemes is in fact the **determination of appropriate health service packages**.

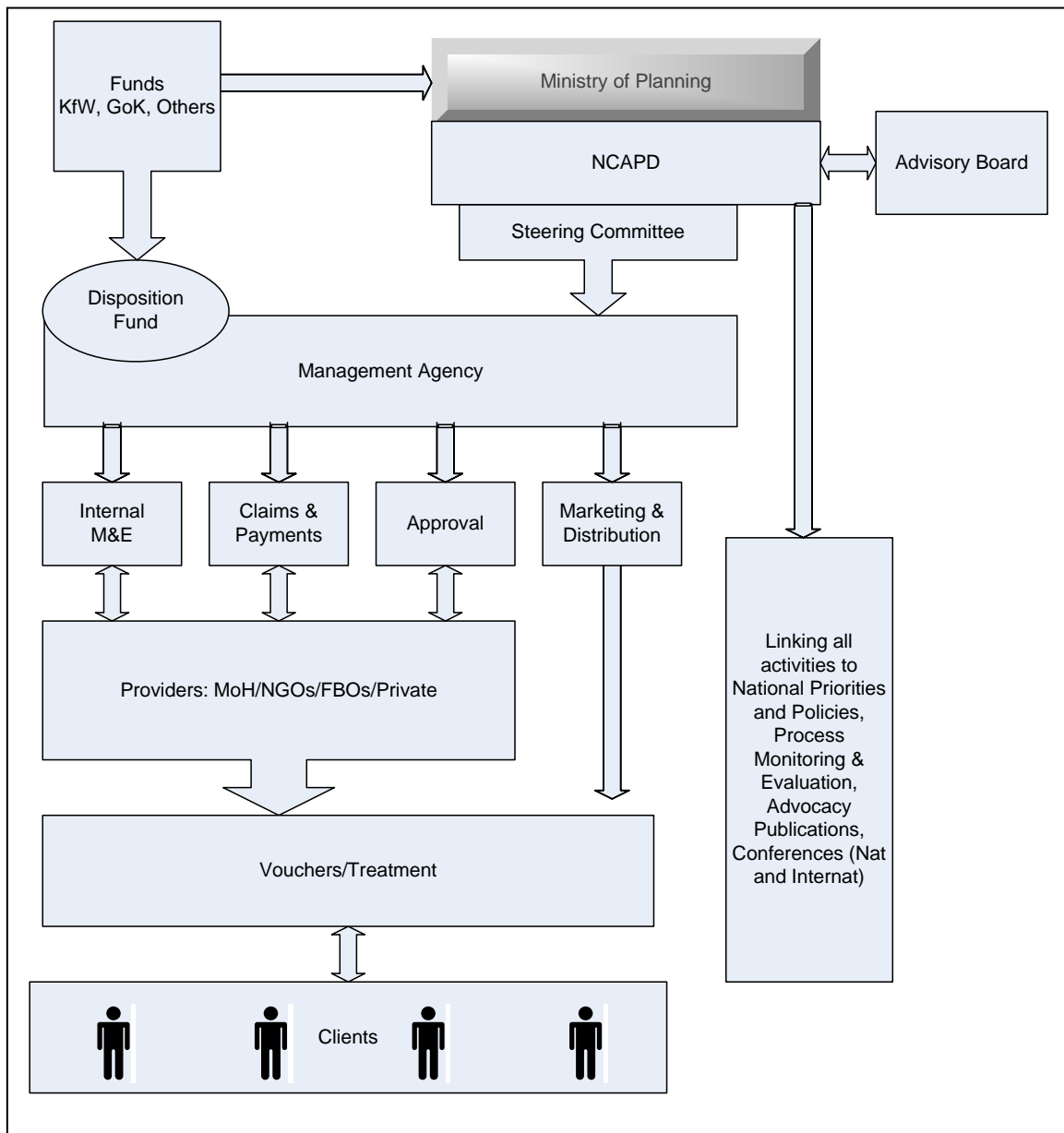
If these measures are intended to provide support for particularly **poor target groups**, it must be ensured that only those entitled to the services are given the vouchers. It must be verified whether a person interested in the subsidised services fulfils the criteria. This check is best carried out by the distributors of the vouchers.

A key element of the approach is to **encourage competition between public, non-government and private providers of health services**. In that connection care must be taken to ensure that only facilities that comply with the quality standards take part in the scheme. These quality standards relate to the qualification of staff, the availability of laboratories and equipment, the provision of safe water supply and sewage disposal systems, etc. In order to ensure the quality of the providers, an accrediting organisation must carry out a critical inspection in line with specified criteria of all establishments interested in the offer before they are included in the network and must repeat these checks at regular intervals. Only those establishments which meet the quality requirements are then entitled to take part in the voucher scheme and can submit claims for refunds. The possibility of participating in the programme and hence of gaining additional revenues then leads to an improvement in the quality standards of the various providers. The aim is for all positively evaluated establishments to advertise the quality of their services by displaying a logo.

The organisation responsible for accreditation and quality assurance must be independent of all potential providers. Of course, a health ministry, which simultaneously runs the public sector health care facilities cannot accredit public, non-government and private providers because it would probably give preference to public providers. As, in many developing countries, organisations of this kind are not long established bodies, one of the main challenges in this approach is to set up these accrediting organisations.

One of the key partners in this approach is the organisation which, on the one hand, ensures that every provider is paid quickly for providing the health services as defined by the scheme but which, on the other hand, checks that payment is made for only those services that are justified and actually provided – i.e. the so-called **Management Agency**.

Organization of the voucher scheme in Kenya



For both developmental and economic reasons there is bound to be great demand for the services supported. In developmental terms, the project pursues objectives such as reducing maternal mortality or the spread of HIV/AIDS. As far as possible, all those concerned must be reached through the project. In economic terms a complex project of this kind can only be run efficiently if the substantial fixed costs of the approach (e.g. owing to the need to establish and finance the institutional set up referred to above) can be spread over as large a number of clients as possible. In order to increase demand, suitable advertising campaigns are thus to be developed to encourage the target groups to make use of the services on offer.

Despite the considerable demands involved in developing schemes of this kind in the individual countries, implementation experience to date provides evidence that the

institutions carry out their tasks effectively and efficiently after the programme has been introduced.

Experience with the approach to date

KfW Entwicklungsbank had been providing support for the development of voucher schemes in the health sector in East Africa since 2004. Projects in Kenya and Uganda are currently being implemented. Additional projects are being prepared in various other regions of the world.

In **Kenya** a project initially limited to three years was started in 2006; it is intended to provide women in three selected districts in the country and two slums in Nairobi with better access to quality health services. These include safe motherhood, family planning and gender violence recovery. After one year this project produced amazing results. It was particularly noteworthy that **in the first year of implementation a total of 17,400 poor women who previously gave birth at home took advantage of the opportunity to give birth with medical assistance. The project thus made a direct contribution to reducing the maternal mortality rate in Kenya.** Previously, only very few poor women in Kenya gave birth in health care facilities with professional medical assistance.



Vouchers make medically assisted deliveries an option for poor women, too

All 50 participating health care facilities have used a large portion of their new revenues to improve the quality of their services. **The competition between public and private sector hospitals encouraged by the project has led to a considerable volume of voluntary investment to raise the quality of the services** as every provider would like to attract as many of the new clients as possible. That is shown by visits to the public and private sector hospitals before and after the start of the project, but especially also by the results of the regular inspections by the accrediting organisation.

The OBA project in Uganda has also been running since 2006. Support is being provided for measures to detect and treat sexually transmitted diseases in Mbarara District, a region with a particularly high rate of HIV/AIDS and a high proportion of patients with sexually transmitted diseases. In this connection, the voucher scheme is being used to encourage people to be examined for sexually transmitted diseases and to obtain treatment. It is particularly noteworthy that the 18 selected private health care facilities have made a **large improvement in the quality of their services. There has been a marked increase in the number of sexually transmitted diseases that have been successfully treated in this district**, which in the medium term should lead to a considerable decline in the problems. Owing to the positive results, the project is now to be extended to other districts and other health services.

Practical implementation of the approach is described below taking Kenya as an example. In principle, the project functions much like the one in Uganda. Following a public tender procedure, the private company Price Waterhouse Coopers (PWC) was chosen to manage the project. This management agency chose the para-state National Hospital Insurance Fund (NHIF) to select and accredit the participating health care facilities. Following the joint inspection, a mix of more than 50 private and public health care providers was selected to take part in the programme.

PWC also established a voucher distribution system involving community organisations and sellers. In addition, extensive marketing measures were financed in order to ensure that the target group can become familiar with the new offer and, in particular, find out how and where the vouchers for the treatment supported can be obtained. These marketing measures consisted of regular road shows and radio broadcasts in the communities being supported.

For the project, a form adapted to the regional situation was developed for the purpose of verifying the economic situation of the applicants. Only those inhabitants of the supported communities who are classified as poor according to this system may be given the vouchers, which they can then use to obtain the specific services at the accredited health care establishments. The health care establishments forward these vouchers to PWC and are paid for their services at the rates contractually agreed upon.

In order to ensure continuous improvement in the quality of the services, the selected health care establishments are visited once a month by the accrediting organisation NHIF. A written record is kept of the recommendations about how to improve the quality of their services. The results of these reports can lead to further quality improvement measures having to be implemented or even to establishments being excluded from further participation. Further training measures can also improve the quality of the service. Private health care facilities, in particular, were positive about the obligation to improve quality and the regular inspection of their services,. Another aspect of prime importance is the fact that the programme has given the participating establishments additional sources of income which they can use to improve the quality of their services.

4. Evaluation

➤ High poverty and MDG relevance

In both countries it is already apparent that specifically targeted poor sections of the population that, for financial reasons, had otherwise been excluded from important diagnosis and treatment measures can be reached through this approach. The projects therefore make a direct contribution to poverty reduction through measures which are in line with the health-related Millennium Development Goals, i.e. reducing child and maternal mortality and halting the spread of HIV/AIDS.

➤ Direct reinforcement of the health system

The competition between public and private health care providers stimulated by the two projects is changing the health care systems and, at the same time, improving the quality of the health care providers. Prior to the project, there was little pressure on private providers in particular to have the quality of their services reviewed by an external body or to undergo further training.

➤ System-building contribution to the introduction of insurance schemes

In both countries the plan is to introduce comprehensive health insurance schemes. The voucher schemes make important contributions to establishing some key functions such as the systems to accredit health service providers, quality assurance, targeting of entitled groups of the population and the establishment of claims processing systems required for this purpose.