

SYSTEM DESIGN OPTIONS FOR INTRODUCING A UNIVERSAL HEALTH INSURANCE IN ZANZIBAR



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1. Situational Analysis

Social protection has become an integral part of any coherent initiatives and policies to mitigate socio-economic imbalances and facilitate sustainable development. This notion has been pioneered by major international agendas for fostering inclusive economic development³. In particular, access to decent health care is of paramount importance in establishing a comprehensive social protection system that safeguards most people during different phases of the life cycle. Accordingly, almost all countries in the world seek to ensure the access to adequate health care for everyone.

In developing countries, financing for health care through out-of-pocket payment is inherently expensive and exposes many people to severe financial shocks during sickness. More catastrophically, it can restrict the access to health care when people lack cash to pay for the service. Similarly, it is extremely difficult for a country to provide adequate health care to all people using private arrangements only; mainly because the health insurance offered by the private firms tends to be expensive to the extent that it becomes unaffordable to most people. In this sense, the introduction of universal health insurance is viewed as the most appropriate mechanism to expand adequate health coverage to the majority of people across developing countries with limited fiscal space to finance the health sector.

For the most parts of last decade, a growing number of developing countries (i.e. Rwanda, Ghana, Ethiopia, Nigeria, and South Africa) have been setting-up universal health insurance as a mechanism for extending health care coverage. The evidence from real life experiences, however, demonstrates that the health insurance systems introduced in most of these countries struggle to achieve rapid expansion of coverage. It appears that under the universal health insurance financing system, the coverage of health care expands parallel with the economic development level of a corresponding country.

In Zanzibar, the Revolutionary Government of Zanzibar (RGoZ) is currently envisioning the creation of universal health insurance for financing the sector and improving the quality/adequacy of

the service. Thereby, it is important to remember the fact that an introduction of any universal health insurance in Zanzibar will be implemented in a very different situation and set-up compared with many other African countries. Unlike for most of the African countries that have recently developed universal health insurance, the access of health care in Zanzibar, despite its quality being of a relatively low, will retain the universalism component when introducing the health insurance system.

Zanzibar has a unique and impressive historical record of health care provision because the country has been offering universal (non-contributory) access to public health care since gaining independence in 1964. In this regard, reform to introduce universal health insurance system automatically not bound to focus very much on extending the coverage and accessibility of health care service (as everyone in Zanzibar currently has free access to the health care), instead it will fundamentally concentrate on identifying sustainable and affordable insurance arrangement for financing the health sector and enhancing the quality (adequacy) of the offered services.

In technical terms, the introduction of the universal health insurance in Zanzibar therefore ought to focus on significantly improving the adequacy of health care by mobilizing extra funds through health insurance for financing the health sector. Unquestionably, the universal health insurance system will be established without impairing the existing universal accessibility of the health care enjoyed by everyone, in particular vulnerable people, such as poor, disabled and elderly people. Any decline of benefits currently accessed by these people could be viewed as undesirable to the livelihood of many people and the occurrence of such event is likely to exacerbate the existing income inequality and poverty rates. If allowed to have such a detrimental impact on the socio-economic status of many people, then implementation of this particular reform will become a daunting task.

From cost and benefit analysis perspective, the establishment of universal health insurance presents a remarkable opportunity to reduce the administration cost of the health system, diminish inefficiency, improve the quality of health service,

³ The 2030 Agenda for Sustainable Development Goals - the universal social protection systems SDG (1.3); universal health coverage (SDG 3.8); - and the African Union (AU) Agenda 2063: The Africa we want.

expand the sources of resource mobilization and increase the long-term financial sustainability of the health sector. On the contrary, the creation and administration of the universal health insurance plans like many other products within the insurance industry is naturally tricky to manage because of the problems associated with adverse selection and moral hazard. Assuming that the present universal health care accessibility will continue to exist after the introduction of a universal health insurance in Zanzibar, the problems caused by adverse selection and moral hazard can be less pervasive.

Essentially, the policy option regarding the system design to be applied when developing universal health insurance system carries a substantially influence on either this specific important reform initiate will be a success (or a failure) as a mechanism to improve the quality/accessibility of health care, mitigate inefficiencies and mobilise resources for financing the health sector. With this concern in mind, the rest of this Policy Note presents options for identifying ideal system design to create a universal health insurance arrangements in line with the prevalent socio-economic factors in Zanzibar.

2. Policy Options Going-forward

In the national setting, there are two most common ways of making national policy. The first approach is based on popular opinion(s) without support of any meaningful scientific evidence. The second approach, recommended by this Policy Note, is an evidence based approach that evaluates the pros and cons of all key policy options and ultimately selects the most compelling option.

The process to explore the evidence based policy options for introducing universal health insurance is naturally a rather complex undertaking. Certainly, Zanzibar will have to implement a series of coherent technical activities which are the cornerstone for developing an efficient and sustainable universal health insurance system. Regardless of the system design to be applied in developing universal health insurance, the RGoZ will still have to implement various technical, administrative and governance activities on:

- *Statutory Requirement (Mandatory vs Voluntary Health Insurance Plan);*
- *Content of Health Benefit Package in line with the affordability aspect;*
- *Contribution and Price (Premium) to be paid;*

- *Payment mechanism (Individual Premium vs Household Based Premium);*
- *Actuarial Valuation Report;*
- *Financing and Investment Strategies;*
- *Redistributive Arrangements; and*
- *Separation of purchasing and service provision role;*
- *Reimbursement mechanisms (i.e., capitation, user fee and outcome based billing); and*
- *Institutional arrangements for enrolment, contribution collection, human resource and information systems.*

Although the importance of these technical processes in establishing a robust universal health insurance system are well recognised, these issues are beyond the scope of this Policy Note. The key purpose of this Policy Note is to discuss policy options with respect to the system design for introducing universal health insurance in Zanzibar.

Building on the fact that currently there is universal non-contributory access to public health service and important socio-economic dynamics, such as high economic, growing population, relatively high poverty and majority of workers are employed within the informal economy, the Policy Note proposes two main approaches for developing universal health insurance system. Further to that, the benefits and drawbacks of each proposed option are briefly discussed with sufficient details for policy and decision makers to get the ball rolling.

Same as in many identical developing countries, universal health insurance could be introduced in Zanzibar using one of the following two system designs:

First, **an integrated health insurance** can be introduced *to cover all people and offering an identical health benefit package to everyone*. In this system design, all people will have identical health care packages, regardless of the type of job they have, age and income level. The major difference is in the manner of the payment, such as the frequency and the amount because people, including the formal workers are expected to contribute through their salaries and income, whereas poor people can receive either partially or fully subsidy from the government financed by public revenues.

Second, the **parallel health insurance schemes** could be established to cater for people based on their occupation type and income level. Under this system design; *two Schemes function within the same health insurance Fund, whereby one Scheme covers formal workers and higher income people, while another Scheme covers the informal workers and low income people*. The rationality for being administered by a single Fund

is to reduce administration cost, increase efficiency and utilise the benefits linked to the economies of scale. However, each Scheme would have separate operations and ring-fenced accounts supported by legal and regulatory frameworks.

3. Policy Options on System Design

Unsurprisingly, any policy option to facilitate the introduction of universal health insurance will contain some benefits and pose challenges or issues to be addressed. It is no brainer that the RGoZ opts for a system design that fits the public resources available to finance the system, and afterward makes a thorough analysis and careful planning to ensure the system is operationalized at a lowest possible cost.

More importantly, both system designs (**an integrated universal health insurance** and **parallel national health insurance schemes**) can be possibly managed by either an existing social security scheme (i.e. Zanzibar Social Security Fund - ZSFF) or a newly established entity. Similarly, each specific system design has unique advantages in the technical sense and practical perspectives, but involves some serious challenges.

It is also essential to avoid becoming obscure to the fact that the high level policy and decision makers in Zanzibar have mandate and discretion to select a design system to be pursued when introducing the universal health insurance system. Hence, the Policy Note intends to assist these policy and decision makers by presenting relevant system design options for introducing universal health insurance, and gauge potential advantages against expected challenges linked to the implementation of each system design.

On the one hand, **an integrated universal health insurance system** contains these important advantages that ought to be considered:

- 1) Equity: This system design will bring fairness to the society with respect to the equal access of the health benefit package. All people will receive the same health benefit package regardless of their employment type or level of income.
- 2) Low Administrative Costs: An integrated health insurance system can help the country to have low administration costs down unlike the case where the system is somewhat fragmented with the presence of multiple Funds/Schemes.
- 3) Absence of the Institutional Complexity: By having an integrated health insurance

system, it is easy to eliminate the institutional complexities and avoid the need for having a coordination mechanism commonly related to the existence of multiple national health schemes in the same country.

- 4) Broad Resource Mobilisation: An integrated health insurance system can collect funds from a broad range of sources, such as individuals, workers, employers and government using different funding mechanisms, including contributions from workers and employers for people under the formal employment, individuals under self-payment, co-payment, earmarked tax/fee and general public revenues.
- 5) Large Risk Pool: This particular system design involves a large risk pooling from various sources, and as a result the benefits associated with *cross subsidization* between formal and informal workers as well as between rich and poor can be accomplished. This situation usually creates a great sense of solidarity among the people in the society.

On the other hand, **an integrated universal health insurance System** is typically linked with the following notable drawbacks:

- 1) High Fiscal Burden: Provision of identical health packages, under this system design, could result into a relatively high fiscal burden of subsidising poor people who would not afford to pay the premium. In this case, the magnitude of fiscal burden to finance health insurance subsidy will be highly correlated with the content and quality of service (i.e. safety, timeliness and effectiveness) of health care package to be offered and micro-economic dynamics, such as GDP, income/salaries, employment, inflation, as well as the formalization of the informal sector.
- 2) Affordability Challenge: Despite the presence of a large pool of participants and broad avenues for gathering contributions, this system design could bring a serious challenge with respect to price affordability, especially if the benefit package will be expansive.
- 3) Low Access to Health Care: In case a large number of people will fail to receive full/partial subsidy for accessing the package to be offered by integrated health insurance, there would be an adverse

situation whereby many people are unable to access the health service.

- 4) Weak Long-term Financial Sustainability: In this system, it is very likely that the coverage of integrated health insurance system will be broad to preserve the existing universal access to health care for all. When a large number of poor people unable to pay for their health insurance (a fiscal burden for subsidising the poor) is coupled with an extensive benefit package; it could pose a severe threat on the long-term sustainability of the system.

Regarding **parallel health insurance schemes under a single Fund** (*which could be employed instead of the integrated health insurance*), it has these potential significant advantages:

- 1) Multiple Benefit Packages: Under this system, it is feasible to establish a minimum (basic) benefit package for all people and offer a superior package for the formal sector employees and other people who can afford to pay.
- 2) Linkage between premium and package: Through this system it is possible to create direct connection between premium to be paid and health services.
- 3) Spring-board for a trajectory toward integrated health insurance system: The minimum benefit package initially can be used and then gradually upgraded so that everyone can be covered by the superior health insurance for everyone as would have been if the integrated health insurance system was adopted.
- 4) Affordable: By having multiple packages, including a minimum health insurance package, it will enable many people to afford paying the premium.
- 5) Low Fiscal Burden: This system design requires a comparatively lower amount (fiscal space) to be allocated toward the subsidisation of health insurance for the poor compared to the integrated health insurance system design.

In terms of the challenges associated with system design, the **parallel health insurance schemes** can present these drawbacks:

- 1) Inequity access to the health care: Definitely, there will be inequality in accessing the health services if this system design is employed. In particular, people with formal employment and those with high

income will be covered by a superior health insurance package than poor people who will be covered by the minimum health insurance package.

- 2) No cross-subsidisation: This specific system design does not present a room for cross subsidisation between the members of the two Schemes with the single Fund.
- 3) Fragmentation: By having multiple Schemes, the design system becomes prone to the fragmentation problems which may result in a weak coordination and inefficiency.
- 4) High Administration Costs: The costs of administering two health insurance Schemes simultaneously are likely to be higher than the costs of operating a single integrated Fund. Such high administration costs could increase the overall costs of financing the health system.

It is widely known that RoGZ will create a universal health insurance. Such a systemic reform is bound to be a very complex assignment for any country regardless of economic development level. This activity can be particularly challenging because Zanzibar has a limited fiscal and narrow tax base. Thus, it may take several years to create a health insurance system that provides a comprehensive and adequate health service to all people. During this process, a lot of technical and administrative activities will have to be performed for establishing an effective and sustainable health insurance system; **but the important caveat is that, any serious misjudgement on the selection of system design will substantially derail the efficacy of universal health insurance as an effective financing instrument to provide better quality health service to everyone.**

The system design is an engine of the health insurance as financing strategy for the health sector, and therefore Zanzibar needs to select a suitable policy option for constructing the optimal system design matching the national health policy, prevailing fiscal space and projected macro-economic conditions for this specific reform to be implemented smoothly. Indeed, the success (or failure) to establish a well-functioning universal health insurance, to a large extent, will be determined by decisions to be made regarding the system design. Furthermore, the significance of identifying adequate design system remain valid either the forthcoming health insurance Fund/Schemes will managed by a newly established entity or one the existing parastatal.