



Technical Assistance Report

Project Number: 42020
May 2008

Palau: Development of a Sustainable Health Financing Scheme (Financed by the Japan Special Fund)

CURRENCY

The currency of the Republic of Palau is US dollars.

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
MSA	–	medical savings account
NHA	–	National Health Account
NHSP	–	national health savings plan
TA	–	technical assistance
US	–	United States

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Health, nutrition, and social protection
Subsector	–	Health systems
Themes	–	Inclusive social development, governance, capacity development
Subthemes	–	Human development, public governance, institutional development

NOTES

- (i) The fiscal year (FY) of the Government and its agencies ends on 30 September. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 September 2008.
- (ii) In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. In April 2007, the Government of Palau requested advisory technical assistance (TA)¹ from ADB to assist in the development of a viable health insurance scheme. Underlying Palau's request was concern about the sustainability of health care financing and limited cost recovery of hospital operations. ADB considered the request to be consistent with the country strategy and program update for Palau (2007–2009),² which identified policy advice and technical assistance to create a more sustainable economy as the basic thrust of ADB's medium-term assistance to the country. Support for effective financing of basic social services is also a key result area of the Pacific Strategy (2005–2009).³

2. Scoping on major health financing issues in Palau and the nature of the technical assistance required was undertaken in October 2007. An aide memoire to the Government containing an initial contextual analysis is available upon request. A TA Fact-Finding Mission was fielded in January 2008 and reached an understanding with the Government on the objective, scope, costs, financing, and implementation arrangements and the consultants' outline terms of reference.

II. ISSUES

3. Health care delivery in Palau is satisfactory and health indicators are relatively high. This can be attributed to government prioritization of health and high government health spending (over \$700 per capita), supported by a steady flow of United States (US) funding under the Compact of Free Association. However, this level of spending is increasingly unsustainable because of rising cost pressures, high hospital account receivables (about \$10 million in 2006), and government revenue constraints. In particular, a significant tightening of public financing is possible following the review of the financial terms of the Compact of Free Association by the US in 2009, which would lead to major cuts in the overall government budget. Government policy makers are therefore keen to improve the sustainability of the Government's fiscal position. The heavily subsidized health sector (which accounted for about 16% of total fiscal expenditures in 2006) is a key area of concern.

4. To improve the long-term sustainability of health care financing, the Government has tried to improve cost recovery and collection of fees. User fees for hospital services have been increased according to a progressive "sliding-fee schedule" and upfront payments for the 55% cost-share for official off-island medical referrals (primarily to the Philippines) have been required. However, these measures seem to have affected utilization patterns, with some patients forgoing medical care because of large out-of-pocket costs for health-care services. Although informal community social safety nets exist in the form of large family networks, required upfront payments for overseas treatment are reportedly driving families of some patients into poverty. Only a small percentage of citizens are currently covered by private medical insurance, usually as part of company schemes; the premium rates for private insurance are generally regarded as too expensive for private individuals, who rely on the public health system instead. Access to affordable health care for the large population of foreign migrant workers is also a critical concern, since the health of these populations directly affects that of local communities, particularly with regard to communicable diseases.⁴

¹ The TA first appeared in *ADB Business Opportunities* on 31 January 2008.

² ADB. 2006. *Palau Country Strategy and Program Update*. Manila.

³ ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank*. Manila.

⁴ About 51% of Palauans (15 years and over) work full time. It is estimated that about 25%–30% of Palau's residents are non-Palauan "guest" workers. The guest workers primarily occupy low-paying, unskilled, or semiskilled positions in the private sector while Palauans occupy public sector jobs and white collar jobs in the private sector.

5. The health sector needs to be systematically reviewed⁵ to identify more appropriate revenue-raising mechanisms, particularly prepayment and risk-pooling (insurance), with a view to ensuring coverage, equity, and affordable access to health services for all residents, including migrant workers. Increasing cost pressures on health care from Palau's aging population and the trend toward a higher prevalence of noncommunicable diseases will increase the need to explore options for cost control and more efficient allocation of resources within the sector. A systematic review must be supported by good data that reflect a comprehensive picture of total health spending and resources at the national level (e.g., a national health account). However, current information tends to be fragmented and is often driven by the reporting requirements of specific US federal grant programs. Government information is available only on its own appropriations and expenditures.

6. Palau has been working on a national health insurance scheme since 1995. In January 2008, Congress passed the National Healthcare Coverage and Savings Act. The Act requires establishment of (i) a national health savings plan (NHSP) in the first phase, and (ii) a national group health insurance plan in the second phase. The NHSP is considered a concrete step towards later development of a national group health insurance plan. The NHSP is to be financed by individual medical savings accounts (MSAs) with contributions from employers and employees, as well as possible funding from external loans and grants. The Social Security Administration will be responsible for the administration and investment of this fund. The legislation was drafted with inputs from a diverse group of key stakeholders, although lack of data and actuarial expertise inhibited a detailed assessment of the financial implications.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

7. The impact of the TA will be that public expenditure on healthcare services is financially sustainable. The expected outcome is that government legislation on National Healthcare Coverage and Savings Act is operational. At the output level, (i) policymakers are better informed on evidence to steer implementation of approved legislation on National Health Savings Plan, and (ii) evidence-based and locally-appropriate sustainable health financing plan is developed for policy consideration. The design and monitoring framework is in Appendix 1.

B. Methodology and Key Activities

8. The TA will be carried out in two phases to support steering and implementation of the recently approved legislation to establish (i) the NHSP, and (ii) the national group health insurance plan under the National Healthcare Coverage and Savings Act. Under phase I, the TA will conduct a detailed assessment and actuarial projections on the financial viability of the NHSP and make recommendations to improve its scope and fiscal sustainability. The development of a first national health account (NHA) for Palau will be explored during this phase, which will provide comprehensive information on national health sector resources and expenditures. The NHA will greatly facilitate analytical work under the TA and future monitoring and informed decision-making on health financing by the Government. However, developing the NHA will depend on the level of existing data and the resources required for further data collection.

9. The assessment of the NHSP under phase I will evaluate its sustainability and its longterm

⁵ Palau's government health delivery system consists of an 80-bed hospital located in the capital Koror, four primary care super-dispensaries, and four community-based dispensaries in the outlying islands. There are three private primary care clinics (two in Koror and one free clinic in Airai run by the US Navy).

potential to provide equity, coverage, and financial protection. It will examine (i) costs, (ii) short- and medium-term fiscal pressures, (iii) the revenue-raising potential of NHSP and MSAs to improve cost recovery of health services, (iv) the long-term role of the NHSP and its alignment with the eventual development of a national group health insurance plan as envisaged in the act, and (v) the potential effects of the NHSP on utilization patterns of health services and current informal community “risk-pooling” arrangements. The assessment will test different scenarios to inform stakeholders on how the NHSP can be fiscally sustainable and how Palau's other health financing objectives can be met.

10. Implementation of phase I will involve close consultations with a working group of in-country stakeholders and experts, especially on (i) the outline of the assessment and key policy questions to be answered on the NHSP and the National Healthcare Coverage and Savings Act, and (ii) data interpretation and recommendations to ensure their usefulness and local relevance. Experts from the Singapore Central Provident Fund—which is the model for the NHSP in Palau—will be asked to participate in some consultation meetings. The minister of health will nominate participants in the working group.

11. Phase II will build on the findings of phase I. It will model a sustainable health financing plan that is appropriate to Palau's economic, cultural, demographic, and epidemiological context. It will review the governance, institutional, and long-term needs of the health sector to understand Palau's health financing opportunities and challenges with a view to arriving at practical solutions. The scheme will aim to attain fiscal sustainability (i.e., a balance in health spending and available revenue) in the context of Palau's objectives on population health care. On revenue mobilization, phase 1 will offer options on different financing sources (including from MSAs) and will focus on effective risk-pooling mechanisms and a variety of arrangements that will enable affordable health insurance for all citizens, as well as for the large population of foreign migrants. It will explore cost pressures and cost inefficiencies in the current system of health services delivery and suggest measures to improve cost control and cost effectiveness. Assessments of institutional capacity and other investment requirements for administration of the selected health financing scheme will be undertaken toward the end of this phase.

12. To ensure ownership and harnessing of local knowledge, phase II will be implemented with the assistance of a working group of local stakeholders and experts, nominated by the minister of health. The experience of health insurance plans in other countries in the region, including the Federated States of Micronesia, Republic of the Marshall Islands, and the Philippines will be taken into account. Experts from these countries may be invited to participate in sessions of the working group.

13. Palau has twice received external technical assistance to develop a health insurance plan (in 1995 and 1999).⁶ However, this technical assistance was criticized as being independently designed and overly complex and prescriptive, and for having limited relevance. This TA is designed to incorporate lessons from these experiences, ensure ownership, and tailor outputs to the country's needs and circumstances. Its key features are that it will (i) build on an existing legal framework; (ii) involve stakeholders at key stages of analysis, interpretation, and formulation; (iii) conduct comprehensive analytical work that reflects broader issues affecting health sector financing in Palau and include long-term sustainability analysis; and (iv) focus on proposing practical solutions. As many other countries in the Pacific are struggling to put in place sustainable

⁶ Bauder & Associates of Hawaii, under contract to the MOH, developed a proposal for a conventional insurance program in 1995. In 1999, the World Bank and the World Health Organization provided some assistance to Palau to review the Bauder Plan and produce a modified version for legislative consideration. However, no serious action was taken on the proposals.

financing plans, outputs from this TA will be shared with other countries during regional technical workshops and other forums.

C. Cost and Financing

14. The TA is estimated to cost the equivalent of \$500,000, of which \$400,000 will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government will provide the equivalent of \$100,000 to finance counterpart staff, office space, furniture, administrative support and data collection services, provision of transport, and local logistical arrangements. Details of the cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

15. The Ministry of Finance (MOF) will be the executing agency (EA) for the TA. The MOF has appointed the Ministry of Health (MOH) as the Implementing Agency. The Planning and Budget Department of the MOF will assign a member of staff to assist the consultant(s) in data collection and collation. ADB will provide MOF with an indicative list of the types of data required before the start of phase I. A second member of staff will be assigned in the MOH to help the consultant(s) with logistical arrangements and data gathering. The Government will assure and facilitate access by the consultant(s) to all the required data for analytical work under the TA. The TA will be implemented in a consultative manner, using a working group of four to six stakeholders and experts. The minister of health will be the primary in-country advisor on implementation of the TA and will select and invite key people to participate in the working group.

16. ADB financing will support a total of 14 person-months of international consulting services for both phases of the TA: a health economist (4 person-months), a health policy and financing expert (5 person-months), an actuary (3 person-months), and a health services administration expert (2 person-months). ADB will engage the consultants in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time to time). Given the highly specialized knowledge sought, along with relevant regional experience, consultants will be appointed as individuals. This is expected to be manageable as the number of consultants is small and the TA will be implemented in a phased way. Outline terms of reference for consultants are in Appendix 3. The total expected duration of the TA is 14 months. Phase I will be implemented over 4 months, beginning in June 2008, and phase II will be implemented over 8 months, beginning about November 2008. There will be a 1–2 month interval between the two phases to allow for findings from phase I to be collated and considered.⁷ National elections are also scheduled to take place during this interim period.

17. Within 1 month of TA implementation, the team leader for phase I will submit an inception report, which will include findings on data quality and gaps (including the feasibility of constructing a national health account) and the key policy questions to be addressed in the final report (as agreed to by stakeholders). The team leader will also submit a final report outlining findings on the financial viability of the NHSP, policy issues, and recommendations for improving its scope and fiscal sustainability. Within 2 months of the beginning of phase II, the team leader for phase II will submit an inception report outlining the outcome of initial stakeholder consultations, clarification of the main health financing problems and priorities to be addressed, and recommendations for developing a sustainable health financing scheme. The team leader will also submit a final report comprising a policy proposal on a feasible and sustainable health financing scheme for Palau, including administrative capacity requirements. Working group sessions will be held regularly

⁷ The suggested interval between phases will not affect financial administration of the TA.

during TA implementation. Wider consultations will take place at the end of each phase to disseminate findings to policy makers and the public.

IV. THE PRESIDENT'S DECISION

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$400,000 on a grant basis to the Government of the Republic of Palau for the Development of a Sustainable Health Financing Scheme, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact Public expenditures on healthcare services is financially sustainable.</p>	<p>Fiscal sustainability attained (i.e., improved balance in health spending and available revenue) by 2012:</p> <p>(i) At least (2) measures to improve cost-efficiency/ cost-recovery of hospital services introduced by 2012 (e.g., spending more on prevention services).</p> <p>(ii) At least (2) alternative revenue sources to health financing introduced by 2012 (e.g., prepayment scheme).</p>	<p>Hospital balance sheets</p> <p>Government annual budget reports and national accounts</p> <p>National health accounts</p> <p>Public expenditure reviews</p> <p>Health insurance data</p>	<p>Assumption Government commitment to improving sustainability of health financing</p> <p>Risk Significant reduction in Compact funds and United States federal grants leads to unprecedented budget cuts</p>
<p>Outcome Government legislation on "National Healthcare Coverage and Savings Act" is operational.</p>	<p>At least (2) government orders / legislative improvements on health financing have been issues by 2010.</p>	<p>Ministerial orders and/or legislative amendments related to health financing</p> <p>Policy meetings and congressional hearings</p> <p>Consultants' reports and communications</p>	<p>Assumptions</p> <p>Government commitment to improving sustainability of health financing</p> <p>Agreement among stakeholders on concrete policy options for sustainable health financing</p> <p>Effective consultation</p> <p>Acceptance of consultant's final report and proposed plan by stakeholders</p>
<p>Outputs</p> <p>(i) Policymakers are better informed on evidence to steer implementation of approved legislation on National Health Savings Plan.</p> <p>(ii) Evidence-based and locally appropriate health financing plan is developed for policy consideration.</p>	<p>(i) At least 80% of senior policymakers participate in consultations/ briefing sessions on assessed financial sustainability of the National Health Savings Plan by September 2008.</p> <p>(ii) At least 80% of senior policy makers participate in consultations/ briefing sessions to consider the draft national health financing plan by July 2009.</p>	<p>Stakeholders consultations and working group papers</p> <p>Policy meetings and congressional hearings</p> <p>Consultants' reports and communications</p>	<p>Assumptions</p> <p>Timely filling of ministerial and key posts relevant to the TA for policy guidance</p> <p>Reliability of counterpart staff to assist with data collation and other implementation matters</p> <p>Effective stakeholder consultation</p>

Activities with Milestones	Inputs
Phase I: (June-September 2008)	Asian Development Bank - \$400,000
1.1. Assess data availability and quality	<ul style="list-style-type: none"> • Consulting services, 14 person-months international - \$360,000
1.2. Stakeholder consultations on outline of final report and key policy questions	
1.3. Construction of a national health account	<ul style="list-style-type: none"> • Workshop and conferences - \$12,000
1.4. Conduct detailed assessment and actuarial projections on financial viability of the national health savings plan, including options and requirements for improving its scope and fiscal sustainability	<ul style="list-style-type: none"> • Surveys - \$5,000
1.4.1 Local expert working group meetings	<ul style="list-style-type: none"> • Administration and support - \$8,000
1.5 Consultation, reporting, dissemination of findings (to feed into phase II)	<ul style="list-style-type: none"> • Contingencies - \$15,000
Phase II: (November 2008-July 2009)	Government of Palau: \$100,000
2.1. Initial stakeholder consultations	
2.2. Systematic review of health financing problems, issues, and objectives (desk and field)	<ul style="list-style-type: none"> • Personnel - \$50,000
2.3. Policy design and actuarial modeling of a sustainable health financing plan (including risk-pooling and health insurance mechanisms)	<ul style="list-style-type: none"> • Office accommodation and transport - \$30,000
2.3.1 Local expert working group meetings	<ul style="list-style-type: none"> • Others (data, administrative support, etc.) - \$20,000
2.4. Assessment of institutional capacity and other investment requirements for management and administration of the select health financing scheme	
2.5. Consultation, reporting, and dissemination of findings and policy information	

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	280.0
b. International and Local Travel	65.0
c. Reports and Communications	15.0
3. Training, Seminars, and Conferences	
a. Workshops and Conferences	12.0
4. Surveys	5.0
5. Miscellaneous Administration and Support Costs	8.0
6. Contingencies	15.0
Subtotal (A)	400.0
B. Government Financing^b	
1. Office Accommodation and Transport	30.0
2. Remuneration and Per Diem of Counterpart Staff	50.0
3. Others	20.0
Subtotal (B)	100.0
Total	500.0

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Computer software.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Phase I

1. Detailed assessment of the financial sustainability of the national health savings plan (NHSP), including financial projections, identification of options and requirements.

1. Health Economist/Team Leader for Phase I (international, 4 person-months, intermittent)

2. The consultant will have at least 10 years experience of providing advisory and analytical services to developing countries on health care financing and costing, and possess relevant actuarial skills. Knowledge and experience of working in small Pacific island countries is preferred.

3. The health economist will undertake a detailed assessment of the financial viability—including benefits and limitations—of the NHSP and suggest options and requirements for improving its scope and fiscal sustainability. He or she will work closely with in-country stakeholders to collate, analyze, and interpret health financing data.

a. Deliverables

4. Within 1 month of technical assistance implementation, the consultant will submit an inception report, which will include findings on data quality and gaps. The report will include the feasibility of constructing a national health account (NHA) and the key policy questions to be addressed in the final report (as agreed to by stakeholders). The consultant will also submit a final report outlining findings on the financial viability of the NHSP, policy issues, and conditions for improving its scope and fiscal sustainability. The scope of work will include the following:

- (i) collect and review existing data (e.g., HIES, social security, public and private health facility records, and private insurance) and previous studies to track the flow of national health resources and expenditures in Palau;
- (ii) advise on whether an NHA can be developed from existing data or with minimal additional data collection, and, if approved, develop the NHA using available data;
- (iii) in collaboration with government counterparts, organize, and administer (including financial matters) required stakeholder consultations and workshops;
- (iv) consult with key in-country stakeholders on the outline of the assessment and key questions to be answered on implementing the NHSP and reach a common understanding on "sustainability" and how it is to be assessed;
- (v) carry out actuarial analysis on key features and requirements of the NHSP, including its rationale and assumptions, cost burdens, potential for additional revenue-raising, underwriting of risks, and cost of the scheme;
- (vi) propose options and requirements for improving the scope and fiscal sustainability of the NHSP, covering pricing and budgeting, planning and management, additional payments or user fees at health facilities, and competition between public and private providers;
- (vii) analyze and report on the issues and implications related to steering the implementation of the NHSP in the Palau context, including:
 - (a) the impact on public finances and on total health spending;
 - (b) alignment of the NHSP with eventual development of the national group health insurance plan (as mandated under the National Healthcare Coverage and Savings Act);

- (c) possible effects on equity, access, coverage, and health-seeking behaviors (e.g., forgoing of medical care);
 - (d) potential for financial protection against catastrophic spending (including that related to overseas treatment);
 - (e) possible effects on the current level and quality of health care services; and
 - (f) consistency with cultural factors and effects on existing community-based informal social safety nets; and
- (viii) consultation, reporting, and dissemination of findings.

B. Phase II

5. Design and modeling of a sustainable health financing scheme or a health insurance plan. This phase will be implemented in a participatory manner involving a working group of local stakeholders.

1. Health Policy and Financing Expert—Team Leader for Phase II (international, 5 person-months, intermittent)

6. The consultant will have a PhD in health policy or a related field with at least 10 years of experience working in an international setting on issues related to health policy and financing, including design and evaluation of insurance and financing options (particularly social insurance schemes). He or she must be knowledgeable of health financing theories and models and able to adapt them to suit the needs and objectives of Palau. He or she should possess workshop facilitation skills and be able to work effectively with in-country stakeholders. Knowledge and experience of working in small Pacific island countries preferred.

7. The primary role of the consultant will be to develop feasible options for the development of a sustainable national health insurance or financing plan(s) for Palau, taking into account the particular economic, cultural, demographic, and epidemiological contexts. This will also include an assessment of institutional and systematic health sector governance issues (e.g., an adequate purchaser-provider mechanism, cost containment, and cost-sharing arrangements) to arrive at optimal solutions to Palau's health financing challenges.

a. Deliverables

8. Within 2 months of the beginning of phase II, the consultant will submit an inception report outlining the outcome of initial stakeholder consultations, clarification of the main health financing problems and priorities to be addressed, and recommendations on developing a sustainable health financing scheme. The consultant will also submit a final report comprising a policy proposal on feasible and sustainable health financing scheme for Palau, including administrative capacity requirements. The scope of work will include the following:

- (i) in collaboration with government counterparts, organize and administer (including financial matters) required stakeholder consultations and workshops;
- (ii) conduct workshop(s) to clarify what policy makers in Palau wish to see and to establish priorities for the long-term financial sustainability of health care;
- (iii) working closely with in-country stakeholders, develop and propose a feasible and sustainable health financing scheme for Palau that will help to balance health spending and revenue while meeting the country's health care objectives (the proposal will include a review of Palau's health financing system, priorities and challenges, advantages and disadvantages of different revenue sources in the

- Palau context, including risk-pooling and social health insurance, and long-term needs for sustainable financing);
- (iv) In consultation with stakeholders, analyze and report on policy issues and implications of the proposed health financing scheme(s) for policy consideration; and
 - (v) consultation, reporting, and dissemination of findings and policy information.

2. Actuary (international, 3 person-months, intermittent)

9. The consultant will have graduate level training with actuarial certification. He or she will have considerable experience of working at the country level in sustainability analysis of health financing models and schemes. The consultant must be knowledgeable about health policy issues and be able to feed into the design process of sustainable health financing or insurance scheme(s).

10. The consultant will work closely under the team leader or health policy expert to (i) model the long-term needs of health care financing and expenditure in Palau, and (ii) cost and assess the financial viability of different financing options.

a. Deliverables

11. The consultant will deliver actuarial and other inputs to the team leader as requested. These may include:

- (i) short-term modeling based on historical projections of health care utilization and cost of services to estimate capitation and premium rates of the proposed risk-pooling scheme(s); and
- (ii) medium- and long-term modeling to analyze and cost health financing policy choices and different scenarios, including the impact of rising cost pressures and aging populations.

3. Expert on Health Services Administration (international, 2 person-months, intermittent)

12. The consultant will have graduate level training and at least 10 years' experience related to health services administration and management in developing countries.

a. Deliverables

13. The consultant will submit a report assessing the institutional capacity and other investment requirements for management and administration of the proposed health financing plan, as directed by team leader. This will include assessment of government regulations and of any structural or other implementation obstacles.