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THE ROLE OF NON-PROFIT ORGANIZATIONS IN HEALTHCARE SYSTEM: WORLD PRACTICE AND GEORGIA (REVIEW)

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The health care market is substantially different from other fields of the economy. Therefore the behavior of health care providers operating in the health care market is different. This difference is related to the form of ownership. In general, the market is maximally oriented on a profit, but in the healthcare market there are several forms of ownership of medical organizations: Nonprofit, For-profit, State-owned, Public-private partnership. Such diversity is mostly due to the particularities of the medical market. However, there are predominantly two forms of ownership in Georgia: for-profit and state-owned.

The aims of the research: assess the role of non-profit hospitals in health care system; review the characteristics of non-profit hospitals, namely how their behavior differs from commercial hospitals; assess the situation in Georgia with regard to non-profit hospitals at the healthcare market; what recommendations could be provided to improve the existing situation?

Material and methods. Methodological basis for the study was the existing literature about non-profit hospitals, relevant legislation, normative acts of The Ministry of Labour, Health and Social Affairs, healthcare statistics and statistical data of the Center for Disease Control and National Bureau of Statistics of Georgia.

Results and their discussion. There are several forms of ownership of medical organizations: Nonprofit, For-profit, State-owned, Public-private partnership. Such diversity is mostly due to the particularities of the medical market. However, there are predominantly two forms of ownership in Georgia – for-profit and state-owned.

One of the forms of ownership of health care organizations is the state-owned, also called the public medical institutions. The owner of such an organization/institution is the state, both on the federal and municipal levels. Hence, there are federal and municipal hospitals.

Owners of private, commercial medical institutions are individuals. They are established for commercial purposes and the primary aim of such organizations is to gain a profit. These organizations themselves can be divided in several forms: Individual private enterprises, Limited liability companies, Joint-stock companies.

Contemporary hospitals were developed in the middle ages by religious organizations and local community unions, which were charitable entities. At the initial stage, hospitals were taking care for the poor population, orphans, mentally ill persons and patients with communicable diseases. The members of these societies did not have an adequate sanitary conditions in their homes for proper treatment. Unlike the poor, the rich and the wealthy had

their own doctors and did not require the services of hospitals. Therefore in European countries, as well as in US, nonprofit hospitals were created in order to provide certain services to the poor and the deprived. Such hospitals were mostly funded by donations [4].

In the 20th century, the advancements in healthcare technologies led to the development of emergency and in-patient hospitals. As a result the role of hospitals was changed. The Hospital became a place for professional medical practice and appropriate treatment of patients. With the function of the hospitals changing, their funding mechanisms changed as well. If previously a significant part of the financing came from charity funds and donations, after the changes the expenses of the patients became the main source of revenue for the hospitals, in addition to state and private insurance companies. Thus, the charity hospitals became the nonprofit (non-commercial) hospitals [5].

The most widespread form of ownership of health care organizations is the nonprofit one. The advantageous development of nonprofit hospitals is evident in European countries (mostly characterized by universal health care system), as well as in more liberal states such as US (where health care is mostly considered as a medical market). In Europe, nonprofit hospitals make more than 70-80% of the hospitals. Similarly, in US, 57% of the hospitals are nonprofit, while 26% are state-owned (public) and private for-profit hospitals represent only 17%. Most of the physicians have private practice in profit and nonprofit hospitals [1].

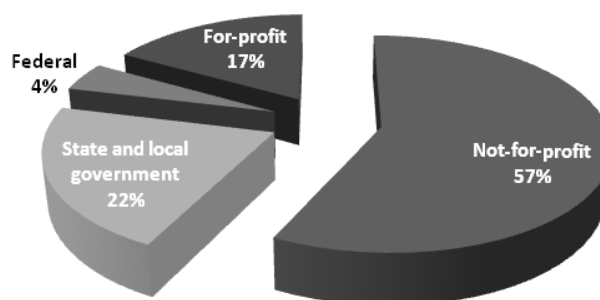


Fig. 1. Forms of Ownership of Hospitals in USA

Source: American Hospital Association. Hospital Statistics, various editions: 1986, 1995-1996. 2007

Contrary to the above-mentioned, only two forms of ownership has developed in Georgia. But, we should not disregard one important fact: before sovietization of Georgia, charity hospitals existed in Georgia as well. For example, in Tbilisi, on the place where the former 9th hos-

pital was situated, stood an infirmary next to the church of Andrew the Apostle, where the famous Georgian poet Vazha Pshavela passed away. The mentioned infirmary, like other infirmaries of the time, was a nonprofit hospital. After 1921, with the eventual soviet occupation of Georgia, nonprofit hospitals became state-owned healthcare organizations [9]. As a result, during the soviet period, there was only one form of ownership in Georgia – state ownership. After regaining independence, private hospitals were added as well. Thus, at present, there are only two extremely radical forms of ownership of health care organizations in Georgia – state-owned and private [2,10].

Hence, we can say that since soviet times, Georgia has been off the path, which the European countries took in terms of developing the health care system (forms of ownership of healthcare organizations is one of the characteristics of the health care system).

Very often, the word ‘nonprofit’ is misinterpreted and it is considered that such organizations do not represent profitable enterprises. As a matter of fact, nonprofit, as well as for-profit, or even the state medical institutions attempt to make a profit. They only differ in the way they distribute the profit. Nonprofit hospitals are managed and run by boards composed of physicians, society representatives, and managers. The profit hospitals are managed by shareholders. To be more precise, nonprofit medical institutions do not distribute the profit to the owners or the shareholders, unlike the for-profit medical institutions. The profit gained by their work is distributed and spent on improvement of medical services that the hospital provides, acquisition of tools and equipment for diagnostics, increasing the salaries of the medical personnel of the hospital [8].

Besides the historically advantageous environment, nonprofit hospitals in western countries had significant support from the governments. As the non-profit hospitals provide service to poor and low-income patients, their activities are considered to be charity. Therefore, their income and property is exempt from taxes.

The tax benefits do not apply to profit hospitals. Furthermore, profit hospitals have no right to receive public donations. Donations are given to the non-profit hospitals to provide medical service to vulnerable population.

In the USA, as in many other countries, non-profit hospitals were established for provision of medical service to the poor population. The main source of funding for them was donations. Despite increasing the portion of the state and private insurance, the greater part of the population is still uninsured. Correspondingly, non-profit hospitals provide medical service to those people with no capacity to pay [11].

In Western Europe and US, trust in nonprofit medical services developed over the years also played a role in the existence of non-profit hospitals. On the medical markets, where consumers are less informed and do not have relevant education on the needs of healthcare services, the great importance is attached to the trust-based relations.

The patients tend to trust towards nonprofit hospitals more than for-profit ones, as the latter are not focused on the profit and doesn't strive to take advantage of the patients' lack of information.

In addition, the society overlooks the performance and governance of nonprofit hospitals. Their policy is more flexible for implementation of the activities such as provision of expensive medical service. In the non-profit hospitals doctors have more possibilities to independently define the hospital policy, service provision, purchase the need medical equipment and services. Due to this, non-profit hospitals better correspond to the financial interest of doctors. In contrast to this in profit hospitals the gain is basically divided between shareholders and state taxes; thus, the motivation of doctors is rather low. Therefore, the factor of trust, public benefit, and financial interest of doctors is main basis for high number of non-profit hospitals.

The popularity of nonprofit hospitals is evident in certain cases, as 70% of US patients prefer nonprofit hospitals, while only 13% go to for-profit ones. Even the medical personnel prefer the nonprofit hospitals, as the majority of them work in nonprofit health care institutions [1].

Profit and non-profit hospitals differ from each other in their organizational behavior. The aim of profit hospitals in contrast to non-profit hospitals is more precise, namely, to get as much profit as possible. The goal of non-profit hospitals is multiple, that makes their monitoring very difficult. Various stakeholders of non-profit hospitals – medical personnel, council members, managers, staff and society – they often have a very different and even conflicting goals. The approaches are different too as how to divide the gain of non-profit hospitals.

Profit hospitals try to define prices for medical service with the purpose of maximum gain [3,6,7]. Non-profit hospitals set such prices for medical services which cover the cost of provided services.

Legal forms of non-profit legal entities in Georgia

It was mentioned above that one of the reasons contributing to the development of nonprofit hospitals in the Western countries was the exemption from taxes. Thus, according to the internal revenue code/tax code of Georgia, nonprofit organizations, which undertake charity activities benefit from tax privileges. Charity organizations are exempt from corporate income tax.

Additionally, the civil code of Georgia defines the definition of nonprofit (non-commercial) entities/organizations: “organization, the aim of which is non-commercial, the primary motivational factor of which is not gaining profit, represents a non-commercial entity of public law”. Despite the fact that the non-commercial entity cannot, by default, oriented on commercial activity, it can engage in auxiliary economic activity. Profit gained from such activities should be used for achieving the ultimate aims of the entity and cannot be divided among or used by the founders, members, donors or the management of the entity.

Despite the fact that an entry about nonprofit entities and their exemption from taxes exists in the internal revenue code of Georgia, sheer existence on paper is not enough for the development of nonprofit hospitals in Georgia. As the nonprofit health care institutions in Georgia are underdeveloped, we can claim that there is a lack of motivation for the existence of such institutions. Further elaboration of tax benefits and privileges in the revenue code is necessary based on European experience. It is expedient to increase the role of nonprofit hospitals on Georgia's health care market.

Types of owners of hospitals in Georgia

According to data from 2013, 88,6% of the hospitals are private for-profit, among which 42% is owned by insurance companies, 29% by individuals, 18,4 by other types of companies and 8% is state-owned [9]. Mostly specific medical institutions and psychiatric establishments are state-owned.

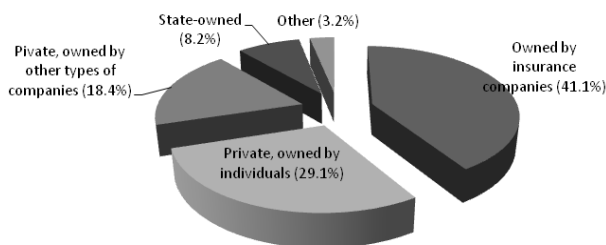


Fig. 2. *Forms of Ownership of Hospitals in Georgia*

Source: *Hospital Sector in Georgia. Transparency International – Georgia, Tbilisi. 2012*

More than 80% of hospitals are owned by three private insurance companies (Aldagi, GPI- holding, and Aversifalfa). Private Insurance Company Aldagi owns 49% of the hospitals. Insurance Company GPI-holding owns 25% of hospitals. Insurance Company Alfa owns 17% of hospitals [9].

It is important to take note of the following problems of the health care sector of Georgia: Most hospitals have fewer than 50 beds (34% of the hospitals have between 11-20 beds; 17% - between 21-30; 41% - between 41-50). According by international experience, a hospital with fewer than 50 beds cannot become for-profit. It is equally important to highlight that certain types of health care services are not profitable, thus the owners of the hospitals have less interest to fund expensive services. Therefore, insurance companies that own hospitals may not bear expenses for such types of medical service.

Besides the above-mentioned forms of ownership of health care institutions, public-private partnership is also widespread in developed countries. Such ownership represents a partnership between the state and private owners aimed at reaching the priority aims of development of the health care system by dividing yield, costs and risks among themselves based on long-term, voluntary decisions. One of the forms of such a partnership is leasing the state property. In such cases, the state leases the buildings and facilities, as well as the equipment that it does not use to a private business.

It is worth noting that a public-private partnership in the health care system is being planned. Private enterprises will be obliged to co-operate with the state and manage, own and operate the hospitals based on the public-private partnership principle. Due to lack of legal base, the Ministry of Economy is currently working on the new legislation dealing with this matter.

Conclusion. Therefore, unlike regular markets, the health care market demanded the existence of different forms of ownership, which comprises private nonprofit, private for-profit, state-owned, as well as public-private partnership organizations. The first steps taken towards public-private partnerships in Georgia are definitely a positive signs. However, it is necessary to promote other forms of ownership as well, particularly nonprofit health care organizations. On Georgian health care market the non-profit hospitals are few. It seems that there is no sufficient motivation for function of non-profit hospitals. Despite the fact that Tax Code envisages tax benefits, it's only on the paper and doesn't provide maximum result. Different forms of ownership of the medical organizations will increase the competition between different forms of ownerships, which will improve access to health care services. Most importantly, this will bring Georgia closer to the experience of the European countries.

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SUMMARY

THE ROLE OF NON-PROFIT ORGANIZATIONS IN HEALTHCARE SYSTEM: WORLD PRACTICE AND GEORGIA(REVIEW)

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The health care market is substantially different from other areas of the economy and therefore the behavior of health care providers operating in the health care market is different, which is mainly related to the form of ownership. If the market is mainly characterized by the pursuit of maximum profit, medical services market has for some public good features. Because of this, non-profit hospitals in western countries are considered as an alternative form of commercial hospitals. The purpose of the research was to study the role of not-for-profit hospitals, and in this regard examine the situation of the medical market in Georgia.

The existing literature about non-profit hospitals, relevant legislation and statistical data, scientific articles, and other related works.

The majority of the hospitals in Georgia represent profitable organizations. 41.1% of the hospitals owned by private insurance companies, 29.1% by individuals, 18,4 by other types of companies, 3,1% by other forms and 8% is state-owned. In contrast to this, more than 50% of the healthcare system of West Europe as well as USA is composed of non-profit hospitals.

In Georgia there is no sufficient motivation for operating of hospitals as non-profit organizations. It is necessary to further adjust tax benefit in the Tax Code of Georgia and share European experiences. It is reasonable to increase the role of non-profit hospitals on the health care market that will increase accessibility to healthcare services for population and moreover. It will bring Georgian healthcare system close to the experience of civilized world.

Keywords: Healthcare, Non-profit Hospital, Commercial Hospitals, Ownership.

РЕЗЮМЕ

РОЛЬ НЕКОММЕРЧЕСКИХ ОРГАНИЗАЦИЙ В СИСТЕМЕ ЗДРАВООХРАНЕНИЯ: МИРОВАЯ ПРАКТИКА И ГРУЗИЯ (ОБЗОР)

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Рынок здравоохранения существенно отличается от других областей экономики. Поведение поставщи-

ков медицинских услуг различается в зависимости от формы собственности. В случае, когда рынок характеризуется стремлением к максимальной прибыли, на рынке медицинских услуг некоторые из них имеют черты общественных благ. Ввиду чего некоммерческие больницы в западных странах рассматриваются как альтернативная форма коммерческих больниц.

Целью исследования явилось определение роли некоммерческих больниц на медицинском рынке в Грузии.

Проанализирована ретроспективная и текущая литература и статистические данные касательно деятельности некоммерческих больниц.

Большинство больниц в Грузии являются прибыльными (коммерческие) организациями. 41,1% больниц принадлежат частным страховым компаниям, 29,1% - физическим лицам, 18,4% - различным компаниям, 3,1% - другим формам, и 8% - государству. В Западной Европе и США более 50% больниц являются некоммерческими.

Следует отметить, что в Грузии нет достаточной мотивации для работы больниц в качестве некоммерческих организаций. Необходимо использование налоговых льгот в налоговом кодексе Грузии и европейского опыта. Разумно увеличить роль некоммерческих больниц на рынке здравоохранения, что облегчит доступность услуг здравоохранения для населения и приблизит систему здравоохранения Грузии к опыту цивилизованного мира.

რეზიუმე

არამომგებიანი საავადმყოფოების როლი ჯანდაცვის სისტემაში: მსოფლიო გამოცდილება და საქართველო (მიმოხილვა)

თ. ვერულავა, რ. ჯორბენაძე, ბ. დანგაძე

ჯანდაცვისა და დაზღვევის ინსტიტუტი, ილიას სახელმწიფო უნივერსიტეტი, აკად. გ. ჩაფიძის სახ. გადაუდებელი კარდიოლოგიის ცენტრი, თბილისი, საქართველო

ჯანდაცვის ბაზარი არსებითად განსხვავდება ეკონომიკის სხვა სფეროებისაგან, განსხვავებულია ჯანდაცვის ბაზარზე მოქმედი სამედიცინო მომსახურების მიმწოდებელთა ქცევაც, რაც უმთავრესად დაკავშირებულია მესაკუთრების ფორმასთან. თუ ჩვეულებრივი ბაზრისთვის, დამახასიათებელია მაქსიმალური მოგებისაკენ სწრაფვა, სამედიცინო ბაზარზე გარკვეული სერვისები საზოგადოებრივი სიკეთის ნიშნებით ხასიათდებიან. დასავლეთის ქვეყნებში არაკომერციული საავადმყოფოები წარმოადგენენ კომერციული საავადმყოფოების ალტერნატიულ ფორმას. კვლევის მიზანს წარმოადგენს არამომგებიანი საავადმყოფოს როლის და ამ მხრივ საქართველოს სამედიცინო ბაზარზე არსებული მდგომარეობის შესწავლა. კვლევის პროცესში

где 3%

გამოყენებული იყო არამომგებიანი საავადმყოფოების შესახებ არსებული რეტროსპექტული და მიმდინარე ლიტერატურის წყაროები, შესაბამისი კანონმდებლობა და სტატისტიკური მონაცემები.

2013 წლის მონაცემებით, საქართველოში არსებული საავადმყოფოების უმრავლესობა წარმოადგენს მომგებიან ორგანიზაციებს; საავადმყოფოთა 41.1% ეკუთვნის სადაზღვევო კომპანიებს, 29.1% - ფიზიკურ პირებს, 18.4% - სხვადასხვა კომპანიებს, 3.1 - მესაკუთრეობის სხვა ფორმებს, ხოლო სახელმწიფოს - 8%. დასავლეთ ევროპის და აშშ-ის ჯანდაცვის სისტემაში არამომგებიანი საავადმყოფოები შეადგენენ 50%-ზე მეტს.

ავტორებს გამოტანილი აქვთ დასკვნა, რომ საქართველოში არ არსებობს საავადმყოფოების არამომგებიანი სახით ფუნქციონირების საკმარისი მოტივაცია. აუცილებელია საგადასახადო კოდექსში გათვალისწინებული იყოს საგადასახადო შეღავათების შემდგომი დახვეწა და ევროპული გამოცდილების გაზიარება. მიზანშეწონილია არამომგებიანი საავადმყოფოების როლის გაზრდა საქართველოს სამედიცინო ბაზარზე, რაც მოსახლეობისათვის ხელმისაწვდომს გახდის ჯანდაცვის მომსახურებას და უზრუნველყოფს საქართველოს ჯანდაცვის სისტემის დაახლოებას ცივილიზებული სამყაროს გამოცდილებასთან.

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