Closing: Recommendations for the Future of Non-State Hospital Policy

Based on this research the hospital sector shows increasing activities. The numbers of public and private hospital is increasing. The speed of non-state hospitals' growth exceeds that of state (public) hospitals'. However non-state hospitals are much smaller that public ones. Non-state hospitals in Indonesia also have two distinct features: (1) providing service for the poor; and (2) providing service for the most affluent and in tight competition with overseas hospitals.

It can be summarized that market forces work significantly in the Indonesian hospital sector. However, the regulation of this market-based sector is not adequate. Hospitals in Indonesia need for more government interventions. Based on the Circular Flow model, some government policies should be developed to support non-state hospitals. The policies can be in the Product Market and Product Factor Market. The major aim of a government policy is to reduce the market failure in providing good hospital service for the poor. The policies for product market are (1) tax and government finance for private hospitals and (2) Social Security for Households. The policies for the product factor market are (1) Human Resources, especially the specialists; (2) lowering the customs tax. The implication of these policies to the stakeholders is important issue that will be discussed in the following.

It appears that the traditional approach of the Government in Indonesia does not view the hospital sector as an industry, which is based on the market forces. This sector consists of productive organizations that produce hospital services and employ many people. The study shows that the industrialization process has accelerated in the last 10 years. As result, the industrialization process is not well-managed by the government. There are some negative impacts of industrialization which are not prevented, such

as (1) the trends of medical specialists and facilities which concentrate in affluent areas, (2) the weak control on non-profit hospitals, and (3) the difficulties in managing medical doctors and other health workers. The hospital industry sector is in a situation in which there is not enough regulation for managing the industrial relation. There is a concern on the equity aspect of non-state hospitals' development. Moreover, the government does not use the industrial policy instruments for supporting non-state hospitals in improving their competitiveness.

Product Market Policies

Hospital Tax and Financing Policy

The main objective of this policy is to provide reward to hospitals which provide charity care and/or care to the poor *Jamkesmas* patients, and/or teaching activities. The reward can be in the form of tax incentives, customs and levy incentives, and/or subsidies for hospital operation and/or investment cost. Hospital Law of 2009 differentiates between public (non-profit non-state and state) hospitals, and private (for-profit non-state) hospitals.

Following Hospital Law of 2009, the tax incentive policy for non-profit hospitals should be issued in the form of a government regulation by November 2011. A government regulation should be more detailed and more operational than compared to the Law. In this government regulation there is a need for a clear definition of what is respectively categorized as "charity care", "non profit", and "community benefits". It is widely acknowledged that some non-profit hospitals act as for-profit ones. The tax policy is important for differentiating the real non-profit and the false ones. The differentiation is important for the growth of non-profit hospitals, by using non-profit management and accounting system. The government regulation should address the following issues: tax exempt based on the amount of charity care or community benefit

for public hospitals; levy exempt based on the amount of charity care; tax incentives for donations; sound accounting practices; charity care plan and policies; donations schemes in private hospitals. Donations should be tax deductible.

Another important issue is that the tax and financing policy should support the development of hospitals or health services in remote areas. In the current situation, remote areas suffer from the shortage of hospitals and medical doctors. The challenge is how to have policies for pushing non-state hospital networks to work in remote areas.

Financing and Tax Policy for For-Profit Hospitals

By the Law, it is difficult to have tax incentives for for-profit hospitals. From fairness perspectives, there is no logical basis for for-profit hospitals to receive tax incentives. For-profit hospitals operate among the high income households. The mission of these hospitals is the same as that of commercial corporations. The hospitals can have lower local government retribution if they provide services for the poor or for patients in remote areas. Or, they can have operational or investment subsidies for these services.

Hospital Product Factor Policies

Policies on medical specialists

The most important component of the production input for hospital is the availability of medical specialists. The policy should address for increasing the number and quality of medical specialists. The list of policies are regulation for eliminating monopolistic behavior; increasing the number of medical specialist trainee not only in state teaching hospitals, but also in non-state hospitals; working together with international groups for recruiting overseas specialists to work in Indonesia temporarily and to facilitate

technology transfer; and temporary task-shifting. In some hospitals which lack specialists such as anesthesiologists or OGs, a task-shifting policy should be developed. General practitioners or trained nurses can be temporary substitutions for specialists.

There will be impact to the profession associations as the members' income will decrease and the power of expertise will be diminishing. It is expected that there will be objection and rejection from associations. However, the government should develop the policy of increasing the number of specialist, in the hard way when necessary. In the soft way, the leaders of associations should persuade the members to serve for the sake of humanity, e.g. reducing the number of maternal and child deaths, reducing the number of victims from traffic accidents, and improve the quality of life. However, the soft way needs a cultural change.

Lowering the customs levy for medical technology

Nonprofit and for-profit hospitals can be supported both for international competition and as the practice of industrial protection. It is expected that there will be a policy on lowering the customs tax for production input, such as medical equipment, drugs and various production inputs based on international benchmarking on the hospital industry policy. From the government-revenue viewpoint, there will be decreased tax and levy revenue. However, this decreased revenue can be compensated by the decrease of fund used by Indonesian patients who seek care in overseas hospitals. The fund can be used by hospitals and the community using the economic effect and its multiplier activities. Hospitals can grow, many people can be employed, and the economic circular flow becomes bigger in Indonesia, not abroad. It is important to refer the phenomenon of "tax burden to the society". This burden exists if the community loss is bigger than the tax revenue received by government.

This cost-benefit analysis for the hospital taxes and financing should be developed. Other industries such as those of palm oil, shoes, and cars have used this kind of analysis for setting industrial policies. For hospitals, this paradigm has not been extensively used. In 2009, Ministry of Finance stipulated a decree for lowering the customs tax for various industrial machineries, including those for the health sector. However, in practice this decree is not yet implemented in the hospital industry.

Another important issue is the intangible benefit of lowering taxes and levies. This intangible benefit is associated with the national pride. If Indonesia continues to have the tax and hospital financing policy like the current situation, it is projected that more and more Indonesians will go abroad for obtaining hospital service, even for minor health problems. This situation will damage the national pride. Although this benefit seems not important, it may become a political backlash for Indonesian leaders.

Implication of these Policies on Stakeholders

Policy for restructuring Ministry of Health

The current condition shows that hospital sector should be strongly regulated and controlled by the government. For this purpose, the central government should have a special unit for the regulating and stewardship functions. At the moment these functions are still mixed with the operation of central-government hospitals. On the other hand, the need for having more government policies and regulations as demanded by Hospital and Health Laws is increasing. Therefore, Ministry of Health should restructure the DG of Medical Services. It is important to have a separation between the policy maker/regulator of hospital service and the management of central-government hospital service. The current structure does not allow the MoH for developing good policies for non-state hospitals and also for public hospitals. The dual role of the DG of

Medical Services in the MoH should be terminated, using a Hospital Authority scheme under the Minister of Health. This means that the central government hospitals' operation should either be (1) managed independently within the DG of Medical Services using a holding system; or (2) spinned off from the DG of Medical Services and became the *national hospital authority* under the Minister of Health.

Strengthening provincial and district health office

Thanks to the Decentralization Law (Law no 32/2004), local governments now have the authority for supervising and licencing/re-licencing hospitals across Indonesia based on their classes. However, this authority is still relatively new. In fact, many local governments have no attention and experience to implement this authority. Provincial and District Health Offices as the responsible units for regulating and supervising hospitals in their respective administration areas are weak. Therefore, for implementing the future national hospital policies, Provincial and District Health Offices should be strengthening through capacity building programs. One important issue in the capacity building is how to understand the market forces work in hospital sector and its positive and negative implications. The health officers should understand and capable of developing local government policies for reducing the market negative impacts.

Non-state hospital owners and managers

Eliminating false legal status. There should be a policy for controlling the behavior of hospital owners in terms of legal aspects. Some hospitals have false non-profit status. The legal status is being non-profit, but it is for-profit practices that are implemented. For the false non-profit hospitals, the managers and "owners" should rectify the legal basis. For-profit hospitals should comply with the Corporation Law. Nonprofit hospitals should comply with the

Yayasan/Foundation Laws or the *Perkumpulan/*Association Law. Associations are expected to remain in non-profit status.

Humanitarian image. Hospital owners should show a more humanitarian image. In the last decades, hospitals have little effort for showing a humanitarian image. Some image building efforts are (1) showing how many poor patients are treated, (2) lowering the life-style of medical specialists, especially in non-profit hospitals; (3) allowing hospitals be the contractors for human resources to the remote area hospitals (the case of the shortage of medical specialist in remote areas), and (4) increasing the skills of charity donation campaigns.

Efficiency services. Small non-state hospitals should decide for mergers or making strategic alliances. For non-state hospitals with the same owners, the model of chain hospitals can be an option. This means non-state non-profit hospitals practise a modern management system to increase efficiency and competitiveness.

Community

The community should have a better monitoring function. Strengthening consumer groups is an appropriate strategy. Hospital performance transparency should be put in the agenda. A regular community survey on hospital performance should be put in the agenda too. This can be done with health insurance organizers which have the same interest for increasing the quality of hospital services.

Profession associations should use a new paradigm in their involvement in health service. There should be a realization that the current mind-set of producing and deploying medical specialists is not effective in increasing community benefits from hospitals. Medical specialists should be re-grouped into two large groups: (1) who work in a relatively “free-market” situation in lucrative practice places, and (2) who work in “managed care” environment. The

second group should have standardized income, although not being poor. This new grouping is expected to support the deployment of medical specialists in many non-state and state hospitals which should serve poor patients.

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