

**OECD Roundtable  
Working party  
Healthcare Industry**

## **I. Introduction**

### **a. Historical Overview of Turkish Health Care Industry**

Healthcare sector has maintained its privileged position in the public agenda of Turkey since healthcare services were institutionalized with the establishment of Ministry of Health in 1920. Healthcare related priorities of Turkey have altered in accordance with the society's needs. In the first years of the Turkish Republic, preventive care and medical education were the top priorities. After World War II, curative services started to gain importance as well and first social security organization of Turkey (SSK) was established to provide health, disability and retirement benefits to workers in 1945. After the 1960s, policies of the government mainly focused on extending healthcare, making healthcare services easily and equally accessible to everyone and encouraging private sector to invest in private hospitals. The 1990s are mostly remembered by political instabilities and economic crises in the near history of Turkey. Throughout the 90s several reform packages were tried to be put into action; between 1988 and 1993, national health policy and a healthcare reform program (first health project) had been maintained, until it was interrupted due to the change of cabinet in 1993. In subsequent years Turkey conducted other health projects in association with World Bank based on a loan agreement signed in 1994. Main objectives of the reform packages from 1989 to 2003 were increasing efficiency of hospitals to get better quality services, initiating competition among state owned healthcare providers, promoting preventive services as well as curative health services, uniting social security bodies under the same roof and enabling Ministry of Health to be the authority to determine health policies and monitor standards<sup>1</sup>.

Despite substantial efforts to solve longstanding problems of the health care system, there has not been significant progress throughout the mentioned period. Turkey stepped in to the new millennium with serious healthcare system problems such as:

---

<sup>1</sup>( Health Care Systems in Transition, TURKEY ; Savas, Karahan ve Saka- 2002 Page: 20,21)

loss of confidence in public health services, considerable amount of people without any kind of social security coverage, the concentration of one third of the hospital beds and almost half the doctors in the three largest cities or other inequalities in the geographical distribution of healthcare personnel.

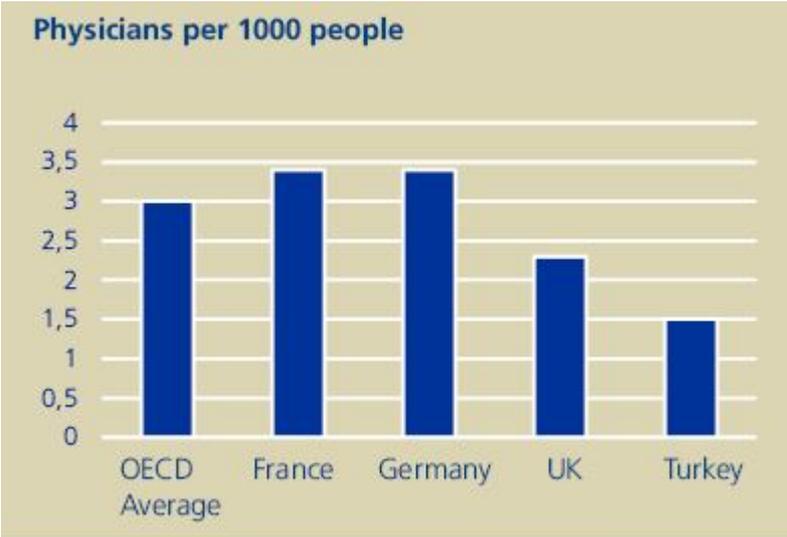
With the declaration of Rapid Action Plan (RAP) in 2002, the vision of which for healthcare sector was providing healthcare for everyone in equal conditions. To implement the vision brought with RAP, Turkey launched a project in 2003, known as “Health Transformation Program” (HTP), and with this program Turkey made considerable progress and made radical changes to the healthcare system.

Throughout this discussion paper, Turkey’s endeavors to improve its healthcare system and experiences gained during the implementation process of HTP are assessed from a competition law point of view. It also touches upon key concepts addressed in the call for contribution, such as the impact of market structure on the price and quality of hospital services, in light of Turkey’s experiences as of 2003.

**b. Current Market Characteristics in Turkey:**

According to the data obtained from the former OECD report, Turkey falls below its OECD counterparts in terms of the number of physicians.

**Table 1: Number of physicians per 1000 people**



Source: OECD Health economics in Turkey and in the world 2008, DELOÏTTE; 17

Basic healthcare indicators in Table 2 demonstrate current health status of Turkey in comparison to other countries with similar income per person.

**Table 2: Infant and maternal mortality rates in TURKEY**

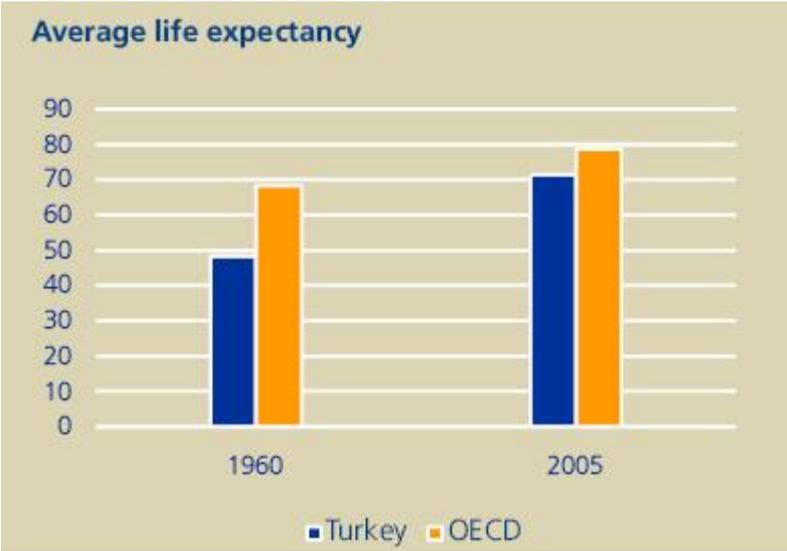
Some Basic Healthcare Indicators						
	Baby Mortality Rate (per 1000 babies)	Mortality rate below the age of 5 (per 1000 children)	Mother Mortality Rate (per 100,000 births)	Vaccination Rate (%, for 12 to 23-month babies)		
				DPT	Measles	
Spain	4	4	4	98	97	
Greece	4	5	9	88	88	
Portugal	4	5	5	99	96	
Brazil	33	35	260	96	99	
Czech Republic	4	5	9	97	99	
Mexico	23	28	83	91	96	
Hungary	8	7	16	99	99	
Poland	6	7	13	99	97	
Malaysia	7	7	41	96	92	
Slovakia	7	8	3	99	99	
Turkey	33	39	70	68	75	
Thailand	23	26	44	90	96	
Russia	16	21	67	98	96	
Romania	18	20	49	97	97	
Bulgaria	12	17	32	96	96	

Source: The World Bank, Turkey Public Expenditure Review 2006

Source: Health economics in Turkey and in the world 2008, DELOÏTTE;18

On the other hand Turkey made formidable progress in life expectancy and mortality rates with the reforms made in the last decade.

**Table 3: Average life expectancy in Turkey compared to OECD average**



Source: Health economics in Turkey and in the world 2008, DELOÏTTE; 17

Expectations indicate that health expenditure will increase in the near future in Turkey as it is rising in the rest of the world. According to the data provided by the World Bank, the projected growth rate is 15% annually. Main reason of increase in health care expenditures is extending healthcare coverage and accessibility of medical services achieved with the introduction of the Universal Health Service.

Another important reason of placing great deal of emphasis on healthcare expenditures is the fact that despite of its relatively young population and lower demand for healthcare services, Turkey has huge amount of healthcare expenditures. Because today's young population ages in time, the demand for healthcare services will increase significantly. Therefore; control of excessive health care expenditures is going to be vital in the near future. According to the estimations, when Turkey's population aged above 65, healthcare expenditures will double from its current level of %7 to %14.

### **c. Impacts of Health Transformation Program on Hospital Services**

The basic objectives of HTP were increasing quality, efficiency, productivity of the healthcare services and providing these services in equal basis either geographically or individually, enhancing the number of citizens under the coverage of social security system. As part of HTP, public insurance funds namely for public and private workers (SSK), self-employed (Bag-Kur) and civil servants (Emekli Sandigi) were brought together under the Social Security Institution (SSI<sup>2</sup>). Restructuring of the public-supported insurance funds was aimed at improving governance, user and provider satisfaction, long-term fiscal sustainability and eliminating fragmentation and duplication in the financing and delivery of healthcare systems.

Before HTP was implemented, the health system in Turkey was composed of both private and public practices and facilities. There were also differences between public hospitals, with three key public hospital service providers in the healthcare system: i) the Ministry of Health ii) SSK, and iii) university hospitals. To synchronize coverage of health insurance provided by different insurers and to increase the accessibility of

---

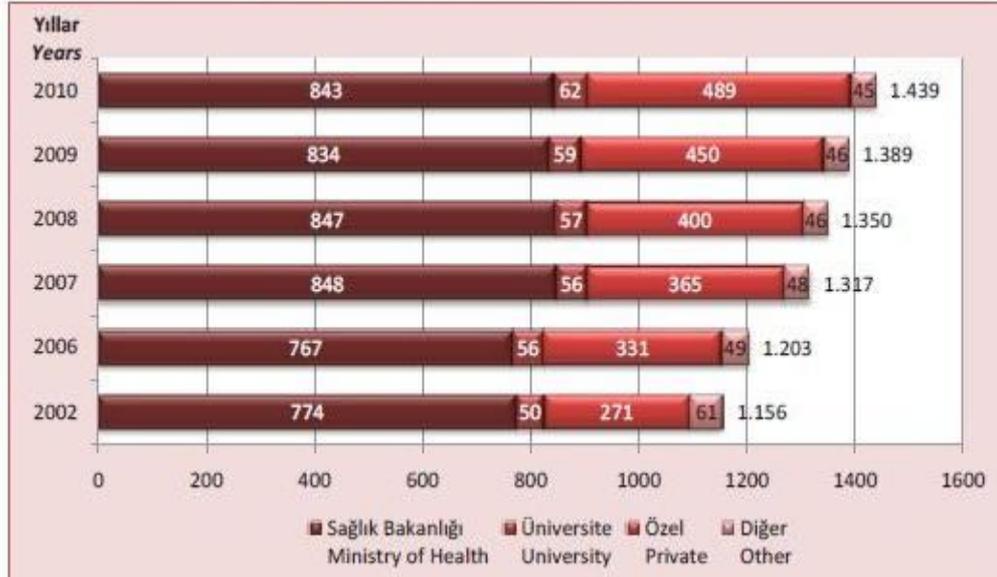
<sup>2</sup> Sosyal Güvenlik Kurumu (SGK) in Turkish

healthcare services, important steps were taken in line with the HTP, which are listed below chronologically.

- In 2005, Green Card Holders had same level of benefits with SSI, Bag-Kur and Emekli Sandigi beneficiaries,
- In 2005 all public hospitals and pharmacies were opened to the use of SSK beneficiaries,
- In 2005, state hospitals, SSI hospitals and Institution hospitals were united under MoH.
- In 2006 SSK, Bag-Kur and Emekli Sandigi were gathered under SGK.
- As one of the most important results of this reform, patients as consumers were able to get health services from any hospital which contracted with the Social Security Institution (SSI).
- In 2007, citizens of Turkey were given the right to access free primary care, even if they are not covered under the social security system,
- In 2007 SSI issued a communiqué called SUT (Saglik Uygulama Tebligi). SUT determines bases and procedures related to healthcare services financed by SSI and indicates contribution amounts, patient co-pays set out by Healthcare Services Pricing Commission,
- SUT increased the harmonization between different insurance schemes, and referral requirement for accessing university hospitals were removed

We can summarize aims of all these reforms carried out within the HTP as facilitating access to health services, improving the service quality, strengthening the planning and supervising role of the Ministry of Health, improve and structure the institutional position of the primary health care in a way to have authority and control over other service levels, developing health information systems, ensuring the rational use of medicines and supplies, and establishing a universal health insurance system.

**Table 4: Number of Hospitals by Years and Sectors, Turkey**



Source: General Directorate of Curative Services

## **II. 2008 General Health Insurance Law (No: 5510) and Transition of the Industry to a Competitive Market**

Social Insurances and General Health Insurance Law no. 5510, in other words, the Social Security reform has entered into force October 1, 2008 in Turkey. As one of the most important results of this reform, patients as consumers were able to get health services from any hospital which contracted with the SSI. This also gives consumers the freedom to choose among hospitals. After the enactment of the Law No. 5510, beneficiaries had the right to get services from any private healthcare entity having contract with SSI. Opening private utilities to beneficiaries caused significant growth in number of private hospitals and increased competition between them. For example; in 2002 there were 271 private hospitals in Turkey, this number became 365 in 2007, 450 in 2009 and 489 in 2010.

Opening the doors of private hospitals to those covered by public insurance enabled public hospitals compete with the private sector for service provision, which increases

the quality and accessibility of healthcare services. The fact that private healthcare facilities opened their doors to SSI beneficiaries has alleviated the burden of state hospitals. So, the excessive workload which was mostly undertaken by public sector in the past is shared with private healthcare institutions and the provision of healthcare services is facilitated<sup>3</sup>. On the other hand, increasing number of private hospitals in the healthcare sector stimulated the demand and healthcare expenditures dramatically increased. To lessen fiscal burden of healthcare expenditures, Government took steps directed towards restricting the new entrance of private hospitals to the healthcare sector. Incentives given to private hospital investments have been reduced and standards that need to be fulfilled to build private medical facilities have been increased. Government stopped receiving new hospital applications as of 15 Sep, 2008 (Unless investors received pre-approval before 15 Feb, 2008). (Daruma Report)

**Table 5: 2008 Major Changings in the Turkey's Health System Between 2003 and 2008**

2003	2004	2005	2006	2007	2008
Ambulance services were made free-of-charge	Individual performance-based supplementary payment system implemented in MoH institutions	Green Card holders covered for outpatient prescription drugs	Global budget implemented for MoH hospitals	No payment required from citizens for primary care, even if not covered under social security.	New MoH Regulation on Private Outpatient Diagnosis and Treatment centres adopted that includes "Certificate of Need" requirement and new licensing procedures to be adopted by MoH
Mechanisms introduced so that the system of patients being held in hospitals as pawns due to non-payment of fees was abrogated	Green Card holders covered for outpatient services	Institutional and quality criteria added to performance-based supplementary payment system in MoH institutions	Implementation of Law 55/02 (integration of social security institutions) begins.		Amendments to Social Security and UHI Law adopted by the Grand National Assembly and signed by the President of the Republic
Total quality management (TQM) put in place in MoH	Reimbursement Commission responsible for reimbursement decisions established according to Ministry of Finance decree	SSK pharmacies closed and members allowed to access private facilities	Family medicine implemented in Eskişehir province	New Health Budget Law adopted (SUT) according to which: <i>i</i> ) referral requirement from MoH hospital to university hospitals removed for SSK and <i>Bağ-Kur</i> ; <i>ii</i> ) patients with chronic condition can refill prescription at pharmacy without authorisation from physician first; <i>iii</i> ) bundled (fixed-price) payment for outpatient and inpatient procedures based on CPT and ICD-10 introduced in all MoH and university hospitals and private hospitals under contract with the SSI; <i>iv</i> ) hospitals under contract with the SSI required to provide in-patient pharmaceuticals and medical devices (covered by insurance) for free, and would be fined if they charged patients; <i>v</i> ) all MoH, university and private hospitals under contract with the SSI required to report claims through MEDULA	Implementation of UHI begins. Green Card programme brought under SSI. Green Card holders to receive same benefits as enrollees in other health insurance schemes under UHI
Performance-based payments piloted in ten MoH hospitals	Right to choose a physician system implemented in MoH hospitals	SSK hospitals transferred to the MoH	Family medicine implemented in Edirne, Denizli, Adiyama and Gumushane provinces	Ambulance services made more accessible in hard-to-reach areas in winter	Pentavalent vaccine introduced in routine immunisation programme
Vaccination days organised in the context of the national campaign of vaccination against measles	Iron supplements distributed free of charge to pregnant women nationally	Co-payment required for Green Card for pharmaceuticals	Pharmaceutical expenditure tracking system established in SSI and work on an integrated claims and utilisation management system for SSI (MEDULA) initiated	Family medicine implemented in Elazig, Isparta, Samsun and Izmir provinces.	Tobacco Control Law passed banning smoking in closed and open public places.
		Family medicine first implemented in Duzce	Public-private Partnerships (PPP) for Health Law adopted by the Grand National Assembly		
		Licensing regulation for pharmaceuticals passed	Measles, mumps and rubella (MMR) vaccinations included in the routine vaccination programme		

<sup>3</sup> Turkey Health Transformation Program Evolution Report, June 2011

### **III. Globalization of HealthCare Systems and Introducing International Competition in Turkey**

Global competition in the Healthcare Industry might be a newly-introduced concept but we believe it is a very important concept and will shape the industry in the near future. In the past, wealthy patients from developing countries have long traveled to developed countries for their high quality medical care. However today, a growing number of less-affluent patients from developed countries are traveling to developing regions once characterized as “third world.” The main motivation of this radical change lies behind lower costs of medical care that leads affordable prices for consumers in those countries.

By seeing the opportunity, many western hospital chains started to expand globally and transfer their technology and know-how to developing countries. We believe that this trend will have a positive effect on internal competition since it will force the domestic producers to improve quality and to offer more choices

Recently; Turkish Competition Authority (TCA) received notification on acquisition of Acıbadem Group of Hospitals, (Acıbadem), the leading private hospital chain of Turkey, by Integrated Healthcare Holdings Sdn. Bhd<sup>4</sup> (IHH). IHH is an international healthcare services provider with a Malaysian origin, operating in Bangladesh, Brunei, Cambodia, China, India, Indonesia, Mongolia, Russia, Ukraine and some other countries. TCA approved the acquisition of Acıbadem by IHH on the grounds that said acquisition does not lead to or strengthen dominant position in the private hospital services market and therefore; does not lessen the competition in the whole or part of the country.

Acıbadem’s acquisition gains importance in terms of demonstrating the interest of foreign investors in private hospital investments in Turkey. When we consider the amount of investment, increasing domestic demand may not be sufficient to set off the initial investment by itself. Turkey’s healthcare tourism potential encourages

---

<sup>4</sup> TCA Decision date and number: 29.12.2011,11-64/1659-589. The decision of TCA has not been judicially reviewed yet.

investing in private hospital industry. Turkey's strategic location and recent developments in transportation facilities enable private medical enterprises located in Turkey providing cross border healthcare services. It is expected that the share of the foreign investment in private hospital industry will rise and concentration will increase in subsequent years.

#### **IV. Structure of Turkish Healthcare Industry**

Healthcare industry is a heavily regulated one in Turkey like its peers around the world. In health economics the key players are patients, providers of healthcare services, financiers of healthcare services, and suppliers/manufacturers of products used in healthcare services. However, healthcare-related issues involve an informational asymmetry: patients do not have as much information about their diseases and the solution methods as physicians, pharmacists and healthcare products manufacturers do. This increases the need for regulation which is a highly controversial issue in Turkey. As discussed in the previous sections three different organizations were brought together and a new organization was founded under the name of SSI.

Although the SSI in its new structure is administratively and financially autonomous, it is still controlled as a related organization by the Ministry of Labor and Social Security. It has a Board of Directors of 10 members, presided by a person appointed via a triple decree upon proposal of the Minister of Labor and Social Security. The Ministry of Labor and Social Security, the Ministry of Finance, and the Treasury Undersecretariat, each has a member representing them in the Board of Directors.

Moreover, the Ministry of Health fulfills important functions in health economics. It is the Ministry which is obliged to supervise and improve public health. Regulations regarding hospitals, which are the basic building stones of health economics, as well as pharmaceuticals, medical supplies and equipment are made by the Ministry of

Health (MoH). Actually, this structure makes the situation more complicated since the Ministry of Health assumes the duties of regulation and inspection in addition to being a service provider, which is contrary to the principle that regulation and execution need to be independent of each other. In the near future, with the settlement of the rules and dynamics, we are expecting a separation in the duties of governmental organizations.

## **V. Public Private Partnership Models (PPP) in Turkey's Healthcare Industry**

One of the objectives targeted with HTP was increasing the variety of treatments given in public hospitals, decreasing regional disparities and upgrading the technology of hospitals. When we consider the required amount of cost to attain these objectives, initiation of the projects could last quite long in case of relying on solely government resources. MoH had worked on several project financing alternatives before the PPP model was adopted for healthcare investments; however, the PPP model based on giving concessions to a private company to build and operate a facility that would normally be built and operated by the government was chosen because it presents an opportunity to make capital intensive investments more effectively in comparison to the government, without increasing the public's burden of debt.

Before customizing the PPP model according to Turkey's conditions, PPP models implemented in different countries were investigated to create a model meeting the needs of the healthcare system. The PPP model implementation in Turkey is mainly based on leasing of facilities from the private party and also leaving management and provision of all services other than medical services to the private parties. Building health campuses including health facilities, R&D and high technology center, implementing the latest technologies in the management of hospitals and spreading the variety of the treatment throughout the country will be carried on with the PPP model. To integrate the PPP model to healthcare investment projects, firstly the legal basis has been created; for this purpose, in 2005 an addition was made to the Law no. 5396 and the "Regulation on the construction of new healthcare premises against lease and the renovation of existing healthcare premises against operation of non

medical services and functional areas of activity” is being published with Cabinet decision in 03/07/2006.

MoH is planning to make 33,315 beds capacity investment with the PPP model. The work of land in 27 provinces has completed except one province. The preliminary designs and feasibility studies for 17 projects have been completed and the Higher Planning Council (HPC) approved the studies. High-Security Forensic Psychiatric Hospitals and Psychiatric Hospitals projects which are planned in 8 provinces were submitted for approval of the Higher Planning Council. Seven feasibility reports studies are still under progress. Tender process of 10 projects which received HPC approval, are still under progress and 7 projects’ tender documents have been prepared.

#### **a. Benefits of the PPP Model**

The most important reason is that utilizing PPP enables construction and renewal of Healthcare facilities at higher quality and better conditions with the help of resources, experiences and approaches of private sector. PPP model also provides the benefits listed below, making it a feasible solution for the capital intensive nature of healthcare investments:

- Benefiting from private sector’s flexibility, creativity and efficient decision making processes in project management,
- Sharing the risk of the investment with private sector,
- Until healthcare facilities become fully utilized, the government does not bear any cost,
- Preventing interruption in the projects because of shortage in government funds,
- By leaning on public funds, healthcare projects could last an average of 8-10 years, private sector participation and its financing capabilities shorten the time span of the projects,
- Instead of taking the burden of initial investment, PPP enables spreading the cost of investments over years,

## **b. Providing all services other than medical services from the private sector**

The thought that the most effective method of increasing efficiency in healthcare services is by opening these services to competition is gaining importance. However, there are several anti-thesis are being asserted to this thought:

First of all, it has been claimed that there is no room for efficiency thought in healthcare services. According to this idea, healthcare services should be provided by public without seeking efficiency. This idea which was commonly accepted at 1960's and 70's is losing its significance today. Because, a system completely ignoring pursuit of efficiency could not be sustained<sup>5</sup>.

Second important thought is that healthcare services are different than all others; therefore, instead of opening these services to competition, attempts should be made to increase efficiency by regulating healthcare services. This thought is increasingly gaining importance over former thought<sup>6</sup>.

One of the basic principles of Turkey's current PPP model of procurement of all services other than medical services from private sector lies somewhere between these two thoughts mentioned above, but closer to second thought. Hospital services consist of a bunch of sub categories such as: building management, hotel services, catering, etc. Those all take important part at overall service provided by insurers. And there is no doubt that private sector could provide these services in a more efficient, qualified and cost-effective manner thanks to its flexibility and promptness. The government can create a competitive environment by pulling itself out from these support services. As a consequence of competition, enhanced efficiency and lowered prices decrease costs of the overall service package financed by insurers.

## **c. PPP Model From a Project Financing Perspective**

Project financing is emerging as the preferred alternative to conventional methods of financing infrastructure and other large-scale projects worldwide. Project finance is a fundamental element of the PPP model; the PPP model does not bring a new, unattempted mechanism for the finance of investments. It uses the well-established approach and legal instruments of a technique known as Project Finance. Project

---

<sup>5</sup> Rekabet Gunlugu Yazıları, TÜRKKAN Erdal.

<sup>6</sup> Rekabet Gunlugu Yazıları, TÜRKKAN Erdal.

Finance includes stages of preparing financial plan, assessing the risks, designing the financing mix and raising the funds. Risks are allocated between the government and the private sector on the basis of who can better manage the risk.

Under a public-private partnership (PPP), a contractual arrangement is formed between public and private sector partners that involve the private sector in the development, financing, ownership, and operation of a public facility or service. Such a partnership creates win-win situations for both parties, because public and private resources are aggregated and risks shared so that the partners' efforts complement one another. Benefits of PPP for Public have been listed above; PPP presents generous incentives to private sector to get in to partnership with Government as well. Private sector protects itself from identified political risks such as; confiscation, expropriation and nationalization, improve credit ratings, reduce pricing of debt instruments, by forming partnership with public.

## **VI. Competition and Choice**

“Competition usually works well in private markets in the absence of market failures. It places downwards pressure on costs, forces firms to focus on meeting customers' needs and leads to more efficient allocation of resources between firms. It also acts as a spur to innovation. In well functioning markets, strong competition is driven by consumer choice, with active consumers putting pressure on firms to improve their product offering, in part by looking for opportunities to switch.” (OFT)

Information asymmetry in healthcare industry is the most prominent reason of malfunctioning of competition in the healthcare sector. Patients rely on provider's opinion more than consumers would in any other market. Patients do not have the potential to make their own purchasing decisions related to core of the service; therefore, patients depend on some other factors while choosing between hospitals. According to conducted researches about patients' hospital preferences, patients build their evaluations upon factors like their distance from the hospital, the image of the hospital, the attitude of the hospital staff, physical conditions of the hospital etc. (Berkowitz and Flexner, 1981).

Patients should be supplied with enough information for being capable of deciding which service, how much and from whom should be taken. In countries where family medicine system is successfully implemented, family practitioners provide that consultancy to the patients.

Some critics claim that even when beneficiaries are provided with the means to make their choices consciously, this does not guarantee effective competition between providers as it is in private markets. Competition could be maintained only if the demand-side of the market works well, well-functioning and competitive market exists when consumers are able to make their choices based on price, quality and other individual characteristics of goods and services.

Price is usually out of assessment in public service markets, in healthcare services insurers finance cost of service, beneficiaries does not pay or pay relatively insignificant amounts. So price is not primarily considered at purchasing decision. Measuring service quality is quite hard, because patients do not know about medical treatment, they can not make sure that they received the most proper package of treatment. It is needed to emphasize treatment on this issue, patients may be satisfied with side services such as the attitude of the hospital personnel and physical conditions; however, the important and costly part of hospital services consists of treatment, and it is more essential to increase competition in this part. The difficulty of creating competition in medical services supports the Turkish PPP model's "Providing all services other than medical services from the private sector" principle.

## **VII. SSI's Price Regulations**

As a consequence of reforms made to expand the breadth and depth of health insurance coverage and improve equality in access to health care services, demand for healthcare services dramatically increased. Correspondingly, total healthcare expenditure soared up. To control the budget deficit in the social security system resulting from the integration of private hospitals to the system, and to lessen the demand for private hospital services, a cap has been put on surcharges (30% on top of the existing government tariffs on healthcare services) to beneficiaries receiving healthcare from private hospitals with the decision of the council of minister.

This new pricing pattern caused unfair competition between private hospitals, in spite of differences between their service qualities and cost structures, same prices were attributed to different service qualities. Consequently, demand on public hospitals dramatically increased and private sector got into scrape. After that, when it seemed that the sustainability of the implementation was controversial, the government and public sector renegotiated the conditions, SSI introduced a ranking system based on certain quality measures in 2010, ranking system allows hospitals to charge higher percentage of their costs up to 70%, from 30% current level. According to ranking system private hospitals classified under 5 categories from A to E (A is the most qualified class).

### **VIII. Concluding Remarks**

There are still problems in the sector and much work to be done in terms of rules, laws and regulation compared to OECD and European counterparts. The fact that too many governmental organizations (Ministry of Health Finance, etc) are involved in the industry as both players and regulators sometimes makes the picture even more blurred. However the progress that has been made in the recent years is also very remarkable. With the introduction of private sector investments (both internal and external) and the opening of the market to competition, standards in the industry started to rise. With its formidable potential for growth, the industry started to turn into an attraction center for even medical tourism. The Turkish Competition Authority is trying to establish a level playing field for both private and state-owned hospitals, but since the sector is at the beginning state and there are many regulations to be made, TCA is currently focused on mainly mergers & acquisitions, bidding markets, and public procurement process of state owned medical enterprises.