



# Using private companies to extend health insurance to the informal sector

By Jennifer Hennig



## Introduction

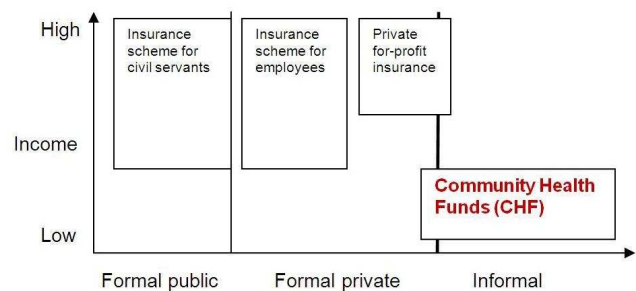
Many developing countries face the challenge of extending (health) insurance coverage to the informal sector. Without adequate health protection, households have to spend their savings, take out loans, sell valuable productive assets, take children out of school and/or reduce the quality or quantity of nutrition when medical costs need to be met. It is estimated that every year more than 44 million households face financial ruin because of direct health care expenditure and 25 million households are forced into poverty through having to pay for health services.<sup>1</sup>

In Tanzania, a Public Private Partnership (PPP) has recently been launched to address this issue. The PPP uses the private company Biolands as an innovative distribution channel for health insurance to extend social protection to the informal sector. Biolands is one of Africa's largest cocoa exporters and buys cocoa from smallholders in Kyela district. It is also interested in having healthy, more productive cocoa farmers and was therefore keen to provide its farmers with access to health care services without any financial barriers.

## Health insurance schemes in Tanzania

In Tanzania, several health insurance schemes exist. There is one for all civil servants where the state pays half the contribution and one for the formal sector where the employer pays half.<sup>2</sup> For the informal sector, there are district based health insurance schemes called Community Health Funds (CHF), with one CHF in every district. The CHFs are part of the health financing strategy of Tanzania and

are supported by the government and districts (e.g. with financial resources for the very poor and a grant to match fund each CHF member's contribution).<sup>3</sup> In addition, there are some private for-profit insurance schemes and other micro health insurance schemes available.



## The approach

Biolands decided to support the contributions to the Community Health Fund of its 20,182 registered cocoa producers, who are considered part of the informal sector, with the subsidy being passed on to retailers selling their cocoa on the European markets. Biolands will also help collect contributions and distribute insurance cards through its 131 buying posts. At the same time, an international development and research NGO, the *Centre International de Développement et de Recherche*, and GTZ have both committed to work on the challenges currently facing Kyela's Community Health Fund.

<sup>1</sup> Carrin et al. (2008) ; WHO (2008)

<sup>2</sup> Humba (2005)

<sup>3</sup> The United Republic of Tanzania, Ministry of Health (1999)

## Challenges facing Community Health Funds

One of the main challenges is the shortage of drugs. In Tanzania, each facility is awarded a credit at the so-called Medical Store Departments (MSDs). However, due to high demand, the MSDs are only able to fulfil 60 to 65% of orders. In other words, close to 40% of requests for medications go undelivered. Credits are directly allocated to the MSDs by the Ministry of Health, which means that facilities do not have the opportunity to use credit funds to purchase medicines via other channels<sup>4</sup>.

The current CHF management structure is also problematic as there is no provider-purchaser split. To date, the CHF is managed by Council Health Service Boards. These Boards are composed of representatives from the community, private and public health care providers, and district authorities<sup>5</sup>. In addition, there are no full-time staff dedicated to managing the CHF and most CHF Coordinators have other responsibilities outside the CHF. For example, the CHF Coordinator in Kyela is simultaneously the acting district health secretary, the Kyela hospital administrator and the CHF district coordinator.

## Innovative measures

Some innovative measures, agreed with the Ministry of Health, are to be introduced in Kyela to tackle these issues. One such measure is to use some of the CHF drug funding to buy medications from retailers other than the MSDs to overcome the drug shortage. Another portion of CHF funding will be used to set up a member-based association which will act to represent the purchaser and make provision for full-time CHF staffing. These innovative measures will be evaluated and lessons learnt will be shared with policy makers for consideration and possible future replication.

## What are the advantages of using private companies as distribution channels for (health) insurance schemes?

### ...for the CHF

One of the advantages for the CHF is, of course, the broader reach of private companies across the population. The CHFs have started to use various distribution channels, like Micro Finance Institutions (MFIs), but not everyone can be reached via MFIs and some MFIs already have enough issues to face. Working with private companies offers the opportunity to reach a broader part of the population and to engage with employers willing to contribute to the premium. Another advantage is reduced administration costs as, with companies taking on the collection process, the CHF no longer has to collect individual member premi-

ums. Biolands' existing system of buying posts is used to collect premiums and distribute cards, which makes the distribution process efficient. Also, insurance education costs decrease as regular farmers meetings can be used to raise awareness about insurance products.

### ...for companies

Companies benefit by having a healthy and productive workforce. Less sickness means less economic loss, more efficient and economical production processes, and increased economic outputs. By offering social protection to their workforce, companies can also create a positive image in terms of their corporate ethos and corporate social responsibility (CSR).

### ...for informal sector workers

The main advantage for those working in the informal sector is access to health care. When falling sick workers can access health care facilities without worrying about the cost as treatments and drugs come free of charge. (Part of) the CHF membership fee is directed to health care facilities to improve health care services and drug availability, so an additional benefit is an overall improvement in the quality of health services. Better quality health care is also achieved by creating client groups. By expanding CHF services to economically active groups, an important segment of a district's population becomes involved in the partnership and collectively they can demand higher quality health services from CHF partners (in this case the district's health facilities).

### ...for the government

The advantage for the government is that private companies in the formal sector take responsibility for workers in the informal sector. In the case described above, an additional advantage is that Biolands is not setting up its own system, adding to a more fragmented risk pool. Rather it is strengthening the overall health care system in Tanzania by using the existing CHF structure. In the Biolands pilot scheme example, best practice in CHF management and drug supply can be replicated throughout the system. The headline benefit, however, is that health insurance coverage is extended to members in the informal sector.

## Challenges and solutions

First of all, there has to be an existing informal sector health insurance scheme in place as setting up a new scheme would probably prove too costly and difficult to administer for companies without the relevant expertise. Building on and improving existing schemes is a better way forward, although collaborating with insurance companies might also be a good solution.

Dependence on subsidies from sponsor companies may problematise a scheme's long term sustainability. Biolands is committed to subsidising the cocoa producers' premium for

<sup>4</sup> Mtei et al. (2007)

<sup>5</sup> The United Republic of Tanzania, The District Council (2001)

five years, or longer if the programme is successful. It is expected that, after five years, increased membership will lead to a reduction in the total cost of the premium, so that Biolands' contributions can be progressively reduced.

The poor quality of available public health services is a problem for many health insurance schemes. Health insurance systems are, after all, only as good as the healthcare system in which they operate. It is therefore essential to improve the overall quality of healthcare so that scheme membership ensures good quality healthcare outcomes for its members. Depending on the individual situation, different measures can be factored in to an insurance system to manage the quality of health care provision, such as different provider payment mechanisms. One of the main quality issues in Tanzania is the availability of drugs. The diversification of drug supply, which will be undertaken by insurance operators together with the health authorities, is one measure to ensure better quality.

### Untapped potential

In conclusion, engaging with private companies who are willing to contribute to insurance coverage beyond payroll staff to their informal worker base offers a wealth of untapped potential in ensuring broader healthcare provision. Viable solutions must be offered to support such initiatives, such as functioning health insurance schemes that already exist at the local level. Where possible, this potential should be exploited, since all parties involved (companies, insurance schemes, informal sector workers and the government) benefit from the extension of insurance coverage to informal sector workers.

### Note

The recently launched PPP in Tanzania has been presented at the 2010 Microinsurance Conference. For the presentation please visit:

<http://www.munichrefoundation.org/StiftungsWebsite/Projects/Microinsurance/2010Microinsurance/Agenda+-+6th+International+Microinsurance+Conference.htm>

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