

Summary and Questions for Week 8:

Demand, Market Structure and the Formalizing of Ministry of Health Fees: A Nicaraguan Case Study --
John Fiedler

Main Points:

- No formal official national user fee policy exists. It was “feared” that a formal debate on policy would threaten the existing informal system which is local, idiosyncratic and “replete with inconsistencies.”
- Nicaragua has three distinct markets; the Managua market (UMM), the “other urban areas market” (OUAM) and the rural areas market (RAM). The price elasticity of demand for health care is much higher in RAM than UMM.
- Managuans are more likely to seek care when they perceive themselves ill than OUAM, who seek care more often than RAM.
- As you would expect, travel time to health care facilities (whether a private physician, hospital, health center or health post) is lower for UMM than OUAM and is highest in RAM.
- While most people do not pay for the care they receive, private physicians charge the highest rate. Since hospitals are better stocked with medicines, and do not collect fees in the emergency room, the average fee is lower in them.
- The author believes that based on his simulation:
 1. User fee policy should be based on the practice of price discrimination, which will help encourage the “correct” use of facilities i.e. the lower tiers first and the higher tiers last, and raise revenues for the health system.
 2. The fees for MOH care in rural areas should be eliminated, while those in Managua increased.
 3. The MOH needs to develop a “formal forward-looking strategy” which involves a formal user fee schedule and provides “appropriate incentives to consumers, yet protects the poor”

Questions:

(1) Does the solution suggested by Fiedler that “the fees for MOH (Ministry of Health) care in rural areas should be eliminated, while those in the capital, Managua, should be increased” satisfy the criteria of:

- (i) Efficiency
- (ii) Fiscal constraints
- (iii) Equity and growth
- (iv) Political and administrative capability

And is there any reason to doubt that this is a good solution?

(2) Using the information given in the article about the three separate markets (where each has a different elasticity of demand when it comes to seeking health care) and using the different mechanisms suggested in Bahl and Linn like; marginal cost pricing; second-best pricing (i.e. subsidizing transportation); multipart tariffs; price discrimination; uniform tariffs; can we think of a more specific user-fee system than the one suggested by Fiedler?

(3) Is there any reason to doubt Fiedler’s claim that a formal system of charging user fees is always better than an informal system? Fiedler says that an informal system is bad because it is open to political forces, forced local authorities to deal with complicated issues and the final user fee system is idiosyncratic and sends “mixed messages.”