

The Effect of User Fee Reduction on Health Care Delivery -Evidence from the 10/20 Policy in Kenya-

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January 21, 2014

Abstract

What prices should be charged for public health care services in low income countries has long been a great concern among development policy makers. However, the implication of prices on the supply of health care services is less studied despite its importance. It is especially important in an environment where the user fees constitute an indispensable source of funds for facilities to improve the quality of health care. In addition, reduction in user fees may disincentivize health providers because it deprives them of opportunities to “pocket” fees they collected. In this paper, we study how user fee reduction affects the quality of health care services, using a nationally representative sample of health facilities and their clients in Kenya, where a national user fee reduction policy, known as the “10/20 Policy”, was introduced in 2004. Exploiting the fact that only the government sector health centers and dispensaries are subject to the policy, we estimate the impact of user fee reduction induced by the policy. We find a significant increase in waiting time for patients upon arrivals and a significant decline in consultation time, while the number of physical examinations performed by health providers are unchanged. Furthermore, our results show a significant decrease in staffing level of nurses, while we find no significant change in demand. Putting these findings together, it suggests that the user fee reduction induced by the policy decreases revenues from user fees, and accordingly facilities are forced to lay off some of the health providers. The results imply necessity of adequate compensation scheme with user fee reduction.

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