

What is strategic purchasing for health?

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TOPIC OVERVIEW 4 | Financing research theme

Ever since the publication of the 2000 World Health Report, there has been a growing awareness that health financing is not simply about raising money. Instead, there are three key functions of health financing: revenue generation, pooling and purchasing. Nevertheless, global debates tended to continue to focus on the revenue generation function.

More recently, the 2010 World Health Report on financing for universal coverage noted that: "Raising sufficient money for health is imperative, but just having the money will not ensure universal coverage. Nor will removing financial barriers to access through prepayment and pooling. The final requirement is to ensure resources are used efficiently." This pointed to the importance of the purchasing function of health financing; purchasing is the critical link between resources mobilised for universal coverage and the effective delivery of quality services. Although the key role of purchasing is being recognised gradually, there remains considerable confusion about what purchasing entails. There is an even greater lack of understanding of what is required for strategic or active purchasing.

This brief attempts to fill this gap by providing an overview of the key activities that a strategic purchaser should undertake. It draws on the limited literature on strategic purchasing, and RESYST (Resilient and Responsive Health Systems) consortium members' experience and understanding from involvement in supporting the development of purchasers. This conceptual model of strategic purchasing underpins an ongoing analysis of purchasing arrangements in 10 countries across members of RESYST and the Asia Pacific Observatory on Health Systems and Policies.

Some initial concepts

Purchasing refers to the process by which funds are allocated to healthcare providers to obtain services on behalf of identified groups (e.g. insurance scheme members) or the entire population (Kutzin 2001).

Purchasing involves three sets of decisions (World Health Organisation 2000; Figueras, Robinson et al. 2005):

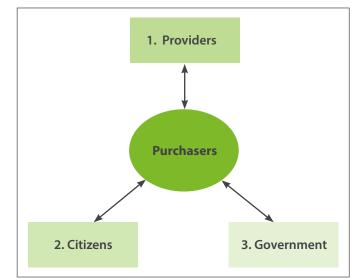
- 1. Identifying the interventions or services to be purchased, taking into account population needs, national health priorities and cost-effectiveness.
- 2. Choosing service providers, giving consideration to service quality, efficiency and equity.
- 3. Determining how services will be purchased, including contractual arrangements and provider payment mechanisms

It is undertaken by a purchasing organization which can be, for example, an insurance scheme, a Ministry of Health, or an autonomous agency. Purchasing should not be confused with procurement, which generally only refers to buying medicines and other medical supplies.

The 2000 World Health Report distinguished between passive and strategic purchasing:

"Passive purchasing implies following a predetermined budget or simply paying bills when presented. Strategic purchasing involves a continuous search for the best ways to maximize health system performance by deciding which interventions should be purchased, how, and from whom."

Strategic purchasing requires the purchaser to engage actively in 3 main relationships: with Government (Ministry of Health), with healthcare providers, and with citizens.



1. Key strategic purchasing actions in relation to providers	2. Key strategic purchasing actions in relation to citizens or population served
 Select (accredit) providers considering the range and quality of services, and their location Establish service agreements/contracts Develop formularies (of generic drugs, surgical supplies, prostheses etc.) and standard treatment guidelines Design, implement and modify provider payment methods to encourage efficiency and service quality Establish provider payment rates Secure information on services provided 	 Assess the service needs, preferences and values of the population and use to specify service entitlements/benefits Inform the population of their entitlements and obligations Ensure population can access their entitlements Establish effective mechanisms to recieve and respond to complaints and feedback from the population Publicly report on use of resources and other measures of performance
Monitor provider performance and act on poor	
performanceAudit provider claimsProtect against fraud and corruption	3. Key strategic purchasing actions by government to promote strategic purchasing
 Pay providers regularly Allocate resources equitably across areas Implement other strategies to promote equitable access to services Establish and monitor user payment policies Develop, manage and use information systems 	 Establish clear frameworks for purchaser(s) and providers Fill service delivery infrastructure gaps Ensure adequate resources mobilised to meet service entitlements Ensure accountability of purchaser(s)

Defining service entitlements and relationships with providers

One of the first actions that a strategic purchaser should undertake is to establish what services it should purchase for the population it serves. This could take the form of an itemised list of services (limited benefit package) or it may be an entitlement to a comprehensive range of health services with some limitations (e.g. excluding certain high cost or ineffective procedures).

Government may take the lead in deciding on service entitlements, but a strategic purchaser should engage actively in identifying the health needs of the population and understanding the preferences and values of citizens. The coverage of the benefit package or entitlements needs to be affordable within the resources available to the government or purchaser, and choices therefore need to be made about what services can be included. The service entitlement needs to be reviewed and updated regularly as the resources available expand, and as new interventions and technologies become available.

Strategic purchasers should also decide which providers to purchase services from. This may be limited to public sector providers, or may include private providers, and often involves an accreditation process. Being selective may not always be feasible, particularly where there is only one health care provider in a geographic area. But wherever possible, purchasers should make explicit decisions on which providers to accredit considering issues such as providers' location relative to the population, their ability to provide an appropriate range of services and quality of care. Where selection is not possible, clear systems for performance and quality improvement are needed.

The purchaser should then establish some form of agreement with accredited providers, which may take the form of a formal contract. This is a means of making the purchaser's expectations clear to providers, such as the range of services to be provided; quality expectations; method, timing and level of payment; the information that providers are required to submit; and outlining action that will be taken for poor performance.



A strategic purchaser should actively identify the health needs, preferences and values of the population

Purchasing is the critical link between resources mobilised for universal coverage and the effective delivery of quality services



Promoting efficiency and service quality

A strategic purchaser also needs to provide guidance on service provision, particularly to promote efficiency and ensure affordability and sustainability of universal health systems. Most often, this will take the form of an essential drug list or formulary and associated standard treatment guidelines that accredited providers are obliged to follow. These should not focus only on the use of generic medicines but also diagnostic, surgical and other supplies and equipment. Capacity for technology assessment, which should consider cost-effectiveness and budget impact analysis, is important to support developing these lists and guidelines.

The population should also be provided with guidance on the appropriate means of accessing services. For example, presenting to a primary health care provider who will serve as a gatekeeper to higher levels of care, and following a specified referral pathway to ensure efficiency, are elements of good practice.

A key element of strategic purchasing is designing, implementing and modifying (if necessary) provider payment methods that will encourage providers to enhance and maintain service quality and efficiency. For example, rigid line-item budgets do not allow facility managers to adapt their mix of inputs or encourage other strategies to improve service delivery efficiency. Other ways of paying providers, often a mix of different payment methods, are more effective in promoting efficiency and quality.

Strategic purchasers have a responsibility to not simply rely on these strategies to influence the behaviour of providers. Instead, they should actively monitor provider performance, particularly in terms of service quality. Monitoring activities could include routine analysis of information submitted by providers (e.g. to ensure that standard treatment guidelines are being followed, or to pick up 'red flags' such as high levels of hospital acquired infections) and regular audits of health facilities. It is equally important to establish effective ways for the population served to provide feedback on their experience of health services, including complaints mechanisms but also pro-active ways of seeking input from citizens. Monitoring needs to be backed up by taking action on poor performance (including responding to patient complaints), which could include de-accreditation (although this may not be feasible in relatively under-served areas) or instituting quality improvement plans.

Ensuring affordability and sustainability

Purchasers carry a heavy burden of responsibility to ensure that the services to which the population is entitled can be delivered with the funds available, and that the health system is sustainable in the long term. It has to ensure that expenditure and revenue are aligned. A strategic purchaser must, therefore, actively engage in establishing the payment rates for providers. The fewer and larger the purchasers, the greater the power they have to influence payment rates, and to exert their purchasing power such as through bulk purchasing of quality-assured drugs and supplies.

Strategic purchasers' financial responsibility also extends to auditing provider claims and taking steps to protect against fraud and corruption. The effective provision of services is also affected by purchasers' ability to pay providers regularly and in a timely fashion. Where government revenue funds the purchaser, government has a reciprocal responsibility to ensure that adequate resources are mobilised so that service entitlements can be met.



A strategic purchaser should take explicit steps to protect its members from catastrophic healthcare payments

Promoting equity and financial protection

While attention in purchasing is often directed to promoting efficiency and service quality, a strategic purchaser should also take explicit steps to promote equity and protect its members from catastrophic healthcare payments. It is insufficient to create an entitlement to services. Not only should the population served be made aware of their entitlements, services must be physically accessible to all those who have this entitlement, for which functioning primary health care and proper referral play a critical role. While government may bear much of the responsibility for building physical infrastructure where gaps exist, a strategic purchaser can influence the distribution of health workers. For example, purchasers can offer higher payment rates for services provided in under-served areas. The equitable allocation of financial resources across geographic areas can play an important role in promoting the availability of well staffed, equipped and supplied health services across the country. The availability of services is not the only equity concern; financial protection must also be assured through establishing and monitoring user payment policies (e.g. disallowing balance billing, setting co-payment limits).

Transparency, accountability and information

Strategic purchasers can wield considerable power; to ensure that this power is not abused, strong governance and accountability mechanisms are required. Government has a stewardship role in establishing clear policy and regulatory frameworks within which purchasers (and providers)



Strong governance and accountability mechanisms are required for purchasers and providers

will operate. These could include explicit expectations of purchasers (eg to ensure the availability of services to, and financial protection of, the population served), governance structures, reporting requirements and accountability mechanisms. Regular (e.g. annual) public reporting by the purchaser on its use of funds, services purchased and other issues is critical for ensuring transparency and accountability to government (particularly where public funds are used) and to citizens.

To effectively undertake all of these activities, a strategic purchaser is dependent on accurate and up to date information, such as information on population health needs, service utilisation patterns, aspects of provision (eg diagnosis and treatment, referral practices) and revenue and expenditure. Therefore, a final responsibility of the purchaser is to develop, manage and use information systems.

About the brief

This brief is an output of the multi-country purchasing project conducted through a collaboration between RESYST and the Asia-Pacific Observatory on Health Systems and Policies

The project aims to critically assess the performance of health care purchasers in a range of low and middle-income countries. The countries involved in the study are: China, India, Indonesia, Kenya, Nigeria, South Africa, Tanzania, Thailand, the Philippines and Vietnam.

Further information

Project webpage: http://resyst.lshtm.ac.uk/research-projects/ multi-country-purchasing-study

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References and further reading

Hanson K. (2014) **Researching purchasing to achieve the promise of Universal Health Coverage** http://resyst.lshtm.ac.uk/resources/researching_purchasing

Kutzin J. (2001) A descriptive framework for country-level analysis of health care financing arrangements. Health Policy 56(3): 171-204

Figueras J, Robinson R and Jakubowski E, Eds. (2005) **Purchasing to improve health systems performance.** European Observatory on Health Systems and Policies Series, Open University Press.

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FACTSHEET | Financing research theme

STRATEGIC PURCHASING FACTSHEET

The issues of health care financing and universal health coverage (UHC) are currently at the centre of global policy debate. A core function of health care financing is purchasing – the process by which funds are allocated to providers to obtain health services on behalf of the population. If designed and undertaken strategically, purchasing can improve health systems performance by promoting quality, efficiency, equity and responsiveness in health service provision and, in doing so, facilitate progress towards UHC.

The RESYST (Resilient and Responsive Health Systems) consortium, in collaboration with the Asia Pacific Observatory on Health Systems and Policies, has recently commenced a multi-country study to critically assess the performance of health care purchasers in a range of low and middle-income countries, and to identify factors influencing that performance. The countries involved in the study are: China, India, Indonesia, Kenya, Nigeria, South Africa, Tanzania, Thailand, the Philippines and Vietnam.

The research will examine the relationships between different groups of actors in order to understand the various components of strategic purchasing and the organisational environment within which it operates. It uses a case study approach whereby the purchasing arrangements or mechanisms in countries are the 'case' in each study, and the organisational relationships for purchasers are the unit of analysis. This fact sheet gives an overview of the different purchasing mechanisms covered in the study, which range from general tax finance public provision systems, to voluntary communitybased health insurance schemes, and mandatory national social health insurance schemes. It identifies the source of finance for each scheme and the different provider payment methods that are used, including fee-for-services, budget allocation, capitation and diagnostic related groups.

The fact sheet also provides an overview of the 10 countries involved in the research, demonstrating their heterogeneity in terms of socio-economic and health systems development.



RESEARCH ORGANISATIONS

- Center for Health Policy and Management, Faculty of Medicine, Universitas Gadjah Mada, Indonesia
- China Center for Health Development Studies, Peking University, China
- Health Economics Unit, University of Cape Town, South Africa
- Health Policy Research Group, University of Nigeria, Nigeria
- Health Strategy and Policy Institute, Viet Nam

- Ifakara Health Institute, Tanzania
- KEMRI Wellcome Trust Research
 Programme, Kenya
- International Health Policy Program, Thailand
- International Institute of Technology, Madras, India
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RESYST purchasing study webpage:

http://resyst.lshtm.ac.uk/researchprojects/multi-country-purchasingstudy

Asia Pacific Observatory on Health Systems and Policies

http://www.wpro.who.int/asia_pacific_ observatory

PROFILES OF PURCHASING MECHANISMS EXAMINED IN THE STUDY

NIGERIA

General tax -funded health services Publicly financed public services; state level pool with contributions from the national pool

Population coverage: Entire population

Source of finance: Government budget (State level)

Purchaser organisation: State Ministries of Health

Provider payment method: Budget allocation

National health insurance scheme (NHIS) Mandatory health insurance for formal sector workers (government workers and 'organised' private sector workers); single pool

Population coverage: 3% of total population

Source of finance: Payroll tax contributions by employees (5% of basic salary) and employers (10% of basic salary)

Purchaser organisation: Private Health Care Organisations

Provider payment method: Capitation for primary care services; fee-for-service for secondary and tertiary care

KENYA

Community-based health insurance

Voluntary schemes open to all but mainly targeting rural populations; individual schemes are usually part of a network formed and supervised by non-governmental organisations; some networks pool resources

Population coverage: 1.2% of total

Source of finance: Premium contributions by households. Some activities for new schemes are subsidized by NGOs e.g. marketing and stationery

Purchaser organisation: Community based health insurance schemes

Provider payment method: Fee for service for inpatient care (IP) only at contracted public health facilities

Private health insurance

Voluntary schemes open to formal (usually as an employment benefit) and informal sectors; run and owned by private, for profit insurance companies: multiple pools

Population coverage: 1.8% of total

Source of finance: Premium contributions by beneficiaries (individual or corporate)

Purchaser organisation: Private health insurance companies

Provider payment method: Fee for service for outpatient care and IP at contracted public and private health facilities: limited use of

INDIA

- State government funded health services (Tamil Nadu) Publicly financed public services; single pool
- Population coverage: Entire State population
- Source of finance: Central and State budgets
- Purchaser organisation: State Departments of Health and Family Welfare
- Provider payment method: Budget allocation

New health insurance scheme, 2012 Mandatory health insurance for state government employees; one pool per state

Population coverage: All government employees, employees of public sector organizations, co-operative societies

Source of finance: Payroll contribution by employees (service tax component is borne by Government)

Purchaser organisation: Public Insurance Company (United India Insurance)

Provider payment method: (Both public and private providers) case-based payment system

CHINA

New Cooperative Medical Scheme Public, mandatory insurance for the entire rural population; multiple pools at the county level Population coverage: 98% of the total rural population

Source of finance: 80% from central, provincial and county government subsidies, 20% from individual premium contributions

Purchaser organisation: County-level governments

Provider payment method: Mixed with fee-for-service and case-based payment system

> **PHILIPPINES** National Health Insurance Program Mandatory health insurance for the whole population; single pool Population coverage: 74.9% of total population Source of finance: Multiple: fully subsidized premium for the poor; premium contributions by public and private employees and the informal sector Purchaser organisation: Philippine Health Insurance Corporation Provider payment method: Outpatient - moving towards capitation with fixed co-payment and case payment for selected procedures; noncatastrophic inpatient - case rate payment; balance billing allowed only for non-poor; catastrophic inpatient (Z benefit) - case payment with negotiated contracts at a limited number of hospitals



THAILAND

Universal Coverage Scheme General tax-funded; non-contributory scheme for population who are not government or private employees

Population coverage: 75% of total population Source of finance: General tax through annual

budget bill to National Health Security Office

Purchaser organisation: National Health Security Office

Provider payment method: Capitation for outpatient (OP) through contractual agreement with networks of primary healthcare and district hospitals; Global budget for DRG for inpatient (IP) services, reimbursed to hospitals

Civil servant medical benefit scheme

Mandatory non-contributory for government employees and dependants

Population coverage: 9% of total population Source of finance: General tax through annual

budget bill

Purchaser organisation: Comptroller General Department; Ministry of Finance

Provider payment method: Fee for service for OP directly reimbursed to hospitals; DRG without global budget for IP; also different bands of costs weighed in favour of tertiary care and teaching hospitals

SOUTH AFRICA

General tax-funded health services Publicly financed public services; single pool

Population coverage: Entire population

Source of finance: Government budget

- Purchaser organisation: Provincial departments of health
- Provider payment method: Budget for facilities, salaries for staff

Medical schemes Private voluntary health insurance "medical schemes"; multiple pools

Population coverage: 16.6% of total

Source of finance: Premium contributions

Purchaser organisation: Medical schemes

Provider payment method: Fee for service; some general practitioners have accepted capitation payments to serve lower income groups; some private primary health care 'clinics' where staff are paid on a salary basis; some private hospitals receive per diem payments or diagnosis related group (DRG) payments for a limited number of schemes

capitation for outpatient care

TANZANIA

General tax funded health services Publicly financed public services;

single, national pool Population coverage: Entire

population

Source of finance: Government budget; central budget donor support and basket funding

Purchaser organisation: Ministry of Health and Social Welfare and Local Government Authorities

Provider payment method: Budget allocation

National Health Insurance Fund (NHIF)

Mandatory health insurance for government employees

Population coverage: 7.1% of total population

Source of finance: Premium contributions; equally shared

between employee and employer Purchaser organisation: National

Health Insurance Fund

Provider payment method: Fee-forservice after health providers submit the claims; the scheme also gives loans for supplies and equipment to the facilities and deducts this when they settle the claims

Community-based health insurance fund Voluntary insurance scheme targeting the informal sector; multiple pools

> Population coverage: 7.9% of total population

Source of finance: Annual premium contribution by households;

premium varies across districts Purchaser organisation: Local

Government Authorities Provider payment method: Mainly

through budget allocation; some districts have entered into service agreement with faith-based facilities where they pay them on capitation basis

VIET NAM

Social health insurance scheme Mandatory social health insurance for the whole population; single purchaser mechanism

Population coverage: 69% of total population

Source of finance: Multiple: fully subsidized premium for the poor; partial subsidies for the informal; payroll tax contribution by formal public and private employees and employers

Purchaser organisation: Vietnam Social Security

Provider payment method: Fee-for-service is the dominant payment mechanism at all health facilities (64.5%). About 42% of 600 district hospitals receive capitation payments

INDONESIA

General tax funded health services Publicly financed public services; single, national pool

Population coverage: Entire population

Source of finance: Central and local government budgets

Purchaser organisation: Local government Provider payment method: Budget allocation

National social security Single pool, mandatory health insurance for state government employees; company employees, with expansion to informal sector planned; the poor are financially supported by publicly financed premium

Population coverage: 52% of total population

Source of finance: Central government budget and some local government budget; payroll contributions by employees and employers; premiums from community

Purchaser organisation: BPJS

Provider payment method: Capitation for primary health care; INA-CBG (DRG type) for hospitals; providers claim for referral services

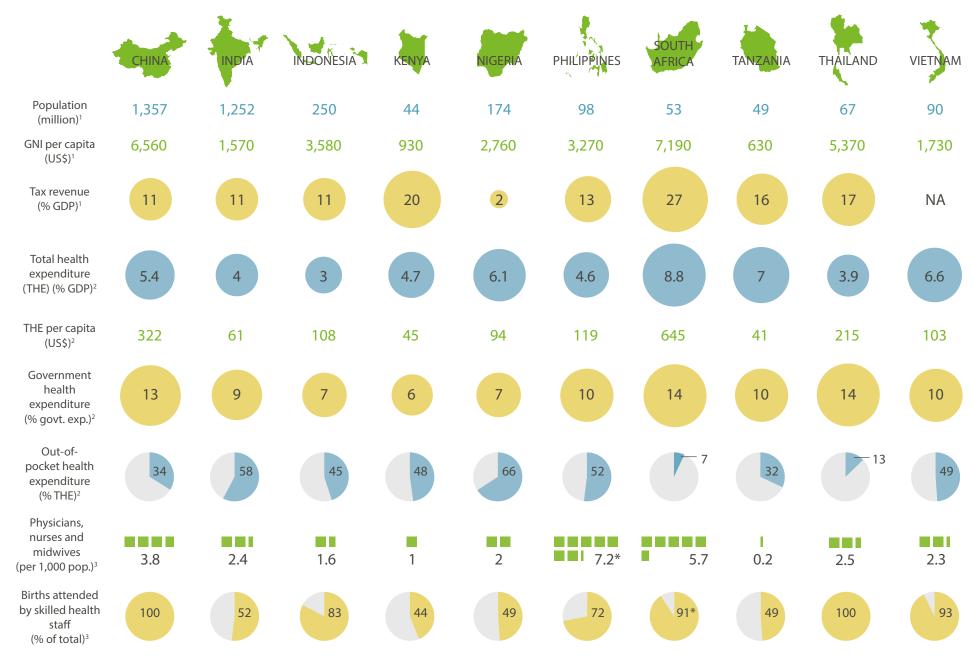
Jamkesda Local government funded insurance schemes; the objectives, beneficiaries and mechanisms vary widely between local government regions

Population coverage: N/A

Source of finance: Local government budget Purchaser organisation: Some district/provincial government (not all)

Provider payment method: Throughout the country, local governments use a range of provider payment methods to transfer resources to health care service providers to obtain services for beneficiaries

AT A GLANCE: KEY INDICATORS FOR THE STUDY COUNTRIES



Source: World Bank, World Development Indicators, http://data.worldbank.org/indicator

¹2013 data, ²2012 data, ³Data from most recently available year ranging from 2003-2012, *Philippines data from 2004, South Africa data from 2003