How can purchasing improve health system performance?

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The topic in context (repetition from 2017)

Resource pooling & allocation

Collector(s) of resources → Third-party Payer(s)

Raising resources/funding

Steward/Regulator

Regulation

Purchasing/contracting/paying providers

Providers


Access to services

Provision of services

How can purchasing improve performance?
What is purchasing?

• In fact, there is a diversity in understanding and definitions: resource allocation to service providers, payment, contracting, commissioning,…

• World Health Report 2000: “Purchasing is the process by which pooled funds are paid to providers in order to deliver a specified or unspecified set of health interventions”

• European Observatory on Health Systems and Policies 2005: “Purchasing is understood as the allocation of financial resources to providers, differentiating passive forms of allocation from proactive or strategic allocation in light of health gain, responsiveness and efficiency goals.”

How can purchasing improve performance?
Strategic purchasing

World Health Report 2000: “Strategic purchasing involves ... deciding which interventions should be purchased, how, and from whom. This means actively choosing interventions in order to achieve the best performance, both for individuals and the population as a whole, by means of selective contracting and incentive schemes.”

• Which services (and how much)?
• How to buy? From whom?
• How much to pay, based on which criteria?

But first:
• Who should buy? For whom?

This afternoon

How can purchasing improve performance?
Analysing purchasing relationships

Purchaser (Agent)

Government / Steward (Principal)

Population / Citizen (Principal)

Providers (Agent)

How can purchasing improve performance?
Analysing purchasing relationships

How can purchasing improve performance?
Purchasing challenges in practice to be addressed

1. Strengthen government stewardship and capacity to develop an appropriate regulatory framework
2. Develop, equip and trust purchasers
3. Incorporate population health needs
4. Empower the citizens (voice, choice)
5. Establish an appropriate provider network, ensure its accountability, manage and monitor performance
6. Develop good and cost-effective contracts
7. Employ the right payment incentives

How can purchasing improve performance?
1. Strengthen government stewardship and capacity

• Challenge: problems of capacity and credibility:
  – *Often financing comes to mind ...*
  – *But more importantly: If some governments have been unable to row, how will they be able to steer?*
  → *if governments do not have the ability to provide services themselves, it is unclear why should they be able to exercise stewardship?*
1. Strengthen government stewardship and capacity

• formulate national health plan/ health targets
• articulate strategic policy directions
• generate intelligence

*(more specific to purchasing:)*
• regulate and ensure accountability (of citizens, purchaser, providers)
• provide an integrated regulatory framework on: rules for purchasers, benefits packages, for contracting, quality standards, payment requirements, budget and price regulations, negotiation and litigation rules, open information, monitoring and evaluation, accreditation of providers...
• have ample government credibility and capacity to enact and enforce change
### 2. Develop, equip and trust purchasers

- Purchasers need tools, information, expertise and enough capacity to run a purchasing process – and government that trusts them to be good agents/principals!

<table>
<thead>
<tr>
<th>7. Strengthen the purchasing role of the HIIS as independent body purchasing on behalf of the people of Slovenia:</th>
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<tbody>
<tr>
<td>a. define competences vis-à-vis the Ministry of Health and the government</td>
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<td>b. reassess the government’s role in arbitration with regard to the GA and contracts</td>
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<tr>
<td>c. explore putting in place an arbitration system through the judicial system or another independent body (e.g. ombudsman)</td>
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<td>d. consider the introduction of selective contracting</td>
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<td>e. introduce hard budget constraints enforced by the HIIS.</td>
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| 8. Consider including patient groups in the GA negotiation, to help focus discussions on quality of care instead of financing and shortfalls. |
| 9. Improve information systems so that they mandate, collect and make available meaningful information for use by all stakeholders to enable effective purchasing. |

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**Recommendation from the Slovenian purchasing and payment review (2015)**
3. Incorporate population health needs

• Problem: health needs assessments are often not done or – if done – little used for purchasing decisions

• Needed: to structurally or functionally integrate public health into purchasing – public health skills in purchaser organizations (in Ghana: NHIA) necessary
4. Empower the citizens

• Population Health Needs
  – determine population priorities

• Voice
  – views of citizens, advocacy, membership in boards (purchaser, providers), patient rights

• Choice of ...
  – provider: yes, but needs to aligned with contents of contracts
  – purchaser: not an issue in Ghana (purchaser choice e.g. in Germany, Netherlands, Switzerland, USA)
5. Establish appropriate provider organizations

Ultimately the impact of purchasers on health systems performance will be determined by the way and the extent to which providers respond to purchasers incentives

- Increase provider autonomy of public providers (→ self governing)
- Provider ability/capacity to respond to incentives
- Define lines of accountability
- Accept a new power balance
6. Ensure good and cost effective contracting

- Problem: Transaction costs are substantial
  - Measurement, search, bargaining, monitoring costs, legal costs
  → Can contracts be specified in sufficient detail (make provision for all possible situations) to avoid opportunistic behaviour in a competitive environment?

- Link contracting with planning
  - Planning: assessing needs, health policy strategy, establishing priorities, service models
  - Purchasing strategy: service requirements, budget constraints and performance targets
  - Contracting cycle:
    - identifying and selecting providers for network,
    - negotiating and agreeing (1) a framework contract (ca. 5 years) and (2) annual contracts,
    - managing and monitoring the contract

How can purchasing improve performance?
6. Ensure good and cost effective contracting

- Promote and ensure quality (and be specific)
  - *Which services? (“Doing the right thing”):* Health Technology Assessment
  - *Who may provide?:* accreditation, certification, minimum volume numbers (centralization)
  - *How? (“Doing the thing right”):* guidelines, protocols, standards of care
  - necessary documentation
  - quality targets/ benchmarking (process)
  - *Results?:* quality targets/ benchmarking (outcome)
7. Employ the right payment incentives

Ideally, provider payment mechanisms should:

• motivate actors to be productive in terms of number of cases treated and services provided

• avoid incentives that would lead to risk selection

• contribute to overall health system efficiency through expenditure control

• are administratively easy and transparent

• encourage providers to achieve optimal care outcomes.
7. Employ the right payment incentives

• In practice, all payment systems have far reaching consequences for efficiency and quality of care. Blended payment systems (combing basic mechanisms) can reduce unintended incentives of basic payment mechanisms.

• **Move towards paying for activity but ultimately quality**
  – Step 1: from input-based monetary allocation to (block) contracts
  – Step 2: from block contracts to activity-related cost and volume contracts
    ▶ increased specification of product (e.g. DRGs)
  – Step 3: make quality/ outcome data collection and reporting mandatory
  – Step 4: from activity-related to outcome-based (initially only as bonus?)
The use of public health to determine priorities for financing, enforce stewardship, and use population health data in choosing which interventions to buy.

Prioritize units in purchasing in order to promote the creation of more long-term contracts.

Avoid micro-purchasing and micro-managing which prevents the pooling of health services and populations and prevents risk-sharing.

Through budgeting and contracting, establish an environment in which there are appropriate incentives for providers

Establish appropriate political capacity and governance
2. European Observatory (2005)

- Citizen Empowerment
- Strengthening Government Stewardship
- Ensuring Cost-Effective Contracting
- Developing Appropriate Purchasing Organizations
- Improving Provider Performance
### TABLE I.1 Implementation Arrangements for Strategic Purchasing of Health Care

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<th>Implementation arrangement criteria</th>
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<td>Stakeholders</td>
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<td>Policy design</td>
<td>Resource allocation and purchasing arrangement</td>
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<td>For whom to buy—members, poor, sick, other?</td>
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<td></td>
<td>What to buy, in which form, and what to exclude?</td>
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<td>From whom to buy—public, private, nongovernmental organization?</td>
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<td>How much to pay—competitive market price, set prices, subsidized?</td>
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<td>How to pay—what payment mechanisms to use?</td>
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<td>Underlying revenue collection mechanisms</td>
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<td>Level of prepayment (full versus partial with some copayment or cost sharing)</td>
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<td>Degree of progressivity (high versus flat rate)</td>
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<td>Earmarking (general versus targeted contributions)</td>
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<td>Choice (mandatory versus voluntary)</td>
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<td>Enrollment (unrestricted versus restrictions in eligibility, waiting periods, and switching)</td>
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<td>Underlying pooling of revenues and sharing risks</td>
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<td>Size (small versus large)</td>
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<td>Number (one versus many)</td>
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<td>Risk equalization (from rich to poor, healthy to sick, and gainfully employed to inactive)</td>
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<td>Coverage (primary versus supplementary, substitutive, or duplicative)</td>
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<td>Risk rating (group or community rating versus individual)</td>
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<td>Organizational structure</td>
<td>Organizational forms (ownership, contractual relationships, and scale and scope of purchasers)</td>
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<td>Structural configuration (extent of horizontal and vertical linkages versus purchaser—provider split or fragmentation)</td>
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<td>Incentive regimes (extent of decision rights, financial responsibility, market exposure, accountability, and coverage of social functions)</td>
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<td>Institutional environment</td>
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<td>Customs and practices</td>
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<td>Management capacity</td>
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<td>Management tools (financial, human resources, health information)</td>
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<td>Access to health care</td>
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<td>Labor market effects</td>
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Source: Modified from Preker and Langerbrunner 2005.
Conclusion

1. A good purchasing strategy can bridge the gap between planning and budgetary allocations.

2. A comprehensive approach would be best, but even individual options will provide a step in the right direction.

3. Improve information systems so that they mandate, collect and make available meaningful information for use by all stakeholders to enable effective purchasing.

4. No guarantees: can remain ineffective tool due to persisting financial, information and power asymmetries.