

# Analytical Framework to assess Governance for Strategic Purchasing

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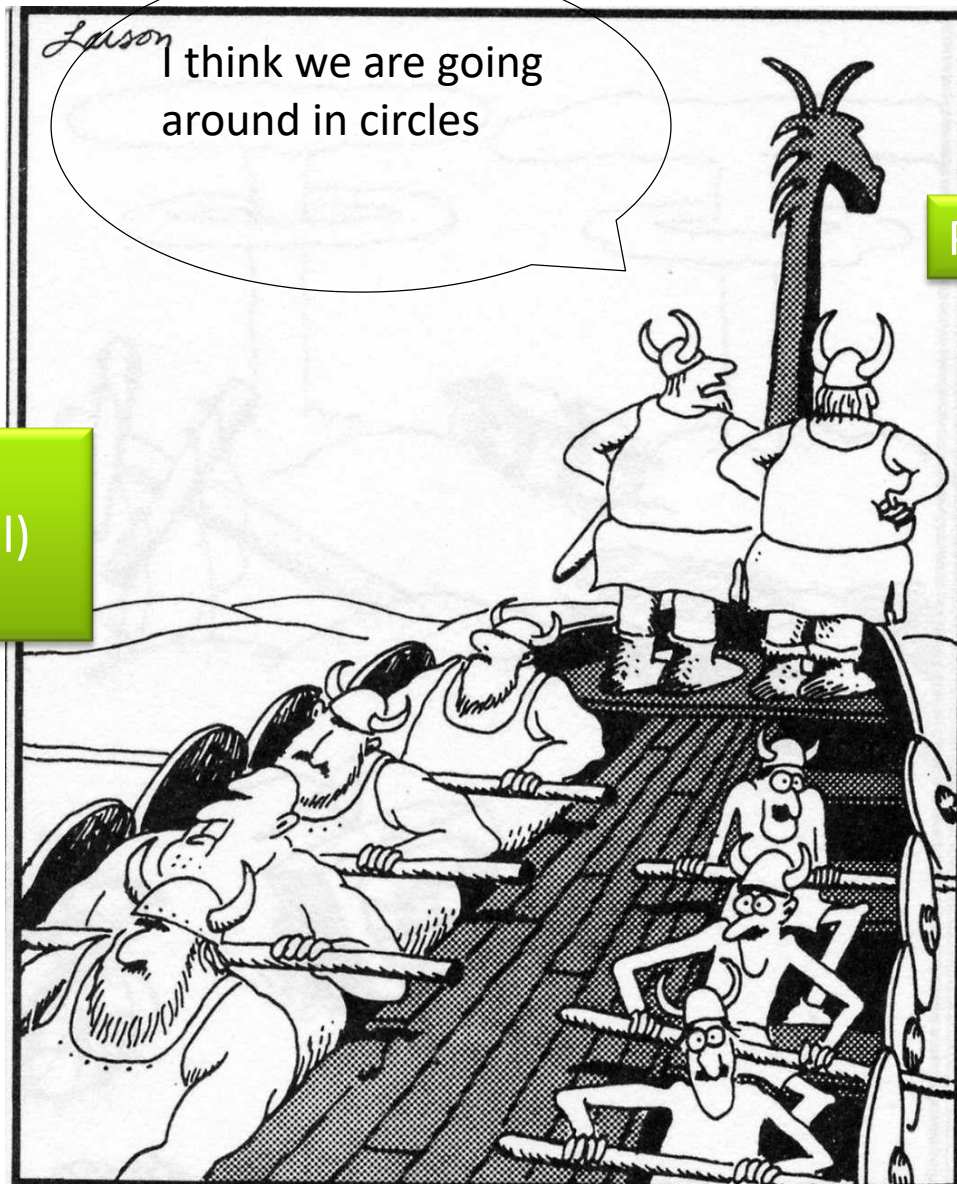
Department of Health Systems Governance and Financing



World Health  
Organization

I.

# Strong governance would help!



Providers and  
(pharmaceutical)  
industry

Policy makers

Purchasing actors  
and patients

Source : A. Maynard

## In a nutshell:

# What do we mean by purchasing and governance?

- Purchasing refers to the allocation of pooled funds to health providers for the provision of health services.
- **Strategic** purchasing means to link the allocation of funds from purchasers to health service providers with **information on provider performance and/or the population's health needs** to improve efficiency, equity and quality and to contribute to progress towards UHC
- Strategic purchasing involves several core areas that need to be aligned: specification of services and interventions; choice of providers; and design of (non-)financial incentives (provider payment methods)
- Strategic purchasing also requires effective **governance arrangements**.
- Governance is an overarching health systems function and is about “ensuring strategic policy frameworks exist and are combined with effective oversight, coalition-building, regulation, attention to system-design and accountability” (WHO 2007).

# **Rationale:**

## **Why does this topic matter?**

- Strategic purchasing is essential for progress towards UHC
  - SP transforms budgets and funds into benefits, with the aim of distributing resources more equitably, realizing gains in efficiency and sending signals to providers to improve the quality of health services
- Effective governance arrangements constitute a critical enabler for strategic purchasing,
  - i.e. making purchasing more strategic requires strong coordination of all key actors, clear decision-making rules and appropriate regulations.
- In many countries, governance arrangements in health systems, and in particular with respect to purchasing, function poorly, are under-developed or even absent.
  - This makes a move towards more SP difficult

# Purpose of the framework

- assess whether a country's existing governance arrangements around the purchasing function are conducive to more strategic purchasing
- identify strengths as well as weaknesses in governance arrangements, which prevent more strategic purchasing
- explore options to overcome these gaps

## Focus of the framework:

- Mandatory health insurance and government health purchasing schemes (with respect to governance of the agency level)

**Target audience:** policy makers, policy advisers

**Users of the framework:** health system specialists focusing on strategic purchasing and governance

# Structure of the document

- **Introduction**
  - Definitions (purchasing, SP, governance), purpose, methodology
- **Part A – Conceptual part**
  - provides the conceptual underpinnings and outlines the various governance areas related to purchasing
- **Part B – Country assessment guidance**
  - presents the analytical steps to undertake this assessment, consisting of five assessment steps

# Areas of assessment

1. Broader fiscal, political and general governance context and overview of the health financing system
2. Governance of the health care purchasing market
3. Governance arrangements of an individual purchaser
4. Conducive factors for effective governance for strategic purchasing

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Summary assessment of governance for strategic purchasing and development of recommendations

# Where does governance take place?

## 1. Broader socio-economic/fiscal & political/health system governance context

## 2. Governance of the purchasing market

## 3. Governance of a purchasing agency

MOH

National Health  
Insurance  
Scheme

Voluntary health  
insurance

Local  
government/  
Local health  
administration

Other ministry

Govt/MOH/oversight bodies

Health  
Purchaser Agency

Accountability

Accountability

Beneficiaries,  
contributors & citizens

Conductive factors

# **Analytical framework on governance for strategic purchasing:**

Presentation of  
the core conceptual components

# Overview of the session

Governance of the Healthcare Purchasing Market

Governance of the Health Purchasing Agency

Conducive Factors for Good Governance  
when moving to *Strategic* Purchasing\*

# Governance of the Healthcare Purchasing Market

## COMMON GOVERNANCE ISSUES - RISKS OF FRAGMENTATION

1. Coordination & **alignment** of all actors around shared objectives
2. Purchasers need financial & contractual **leverage** over providers
3. Clear roles & responsibilities
4. **Avoiding perverse incentives** between different purchasers
5. Minimising **administration & transactions costs** - sharing data...
6. **Public financial management alignment** & provider autonomy & governance issues

# Governance & types of purchasing markets

## Options

1. Single national purchaser pools most funds
2. Competing funds, open to all
3. Non-competing purchasers for different groups of people
4. National + local purchasers
5. Supply side financing still plays a large role
6. Out-of-pocket payment still plays a large role

## Positive Governance Aspects

- Financial leverage, whole-system leverage, scale economies
- Competition, choice, selective contracting may be politically easier
- Benchmarking may be possible, selective contracting may be easier
- Local participation, local government coordination & local accountability
- Supply side policy tools can complement purchasing especially in major service change
- Few positives! Selective contracting may be easier than when most funds are pooled

# Governance & types of purchasing markets

## Options

1. Single national purchaser pools most funds
2. Competing funds, open to all
3. Non-competing purchasers for different groups of people
4. National + local purchasers
5. Supply side financing OR aid finance plays a large role
6. Out-of-pocket payment still plays a large role

## Governance issues...

Soft budget constraint, no benchmarks, pressure to give extra funding to providers with deficits

Non-transparent competition, low financial leverage, failure regime needed, high admin cost

Soft budget constraint, unequal BPs, low financial leverage, high admin. cost

Cost shifting, uncoordinated care across boundaries & diluted accountability if responsibilities are unclear

Uncoordinated strategies; MoH conflict of interest as owner of provider & overseer of purchaser

Low financial leverage if there is balance billing or informal payment; cost-shifting to private funding if benefits package is limited & unclear to patients

# Governance & Regulation Responses

## Options

1. Single national purchaser pools most funds
2. Competing funds, open to all
3. Non-competing purchasers for different groups of people
4. National + local purchasers
5. Supply side financing still plays a large role
6. Out-of-pocket payment still plays a large role

## Responses to Governance Issues

Credible multi-year budget; sophisticated oversight; use sanctions for poor management performance

Standard basic BP, transparency duties, failure regime, promote mutual or non-profit forms

Regulate payment method, price & performance metrics; pool data; benchmark (for Option 2 too)

Clarify responsibilities; develop purchaser coordination; integrate pathways/payment

Clarify responsibilities; coordinate planning; reduce MOH ownership role; shift funding to purchaser

Price regulation for BP services; simple BP; clear public/private boundary; info & advocacy

# Governance of the Purchasing Agency

## COMMON GOVERNANCE ISSUES:

1. Conflict & misalignment between MOH and purchaser
2. Lack of clear, coherent objectives or strategic direction
3. Purchaser lacks autonomy or capacity to be held accountable for objectives
4. Ensuring legitimacy - participation & consultation
5. External accountability for results & use of resources

# Elements of formal governance for a health purchasing agency

Governance mechanism	Desirable features for good governance
Clear decision-making roles, rules & processes	Clear decision rules & coherent division of roles & authority between MOH, MOF, oversight body & purchaser
Public interest mandate & clear strategic objectives	Clear objectives; balanced set of objectives including financial sustainability, financial protection, improving health, equity
Autonomy & authority matched to capacity	Purchaser has enough decision authority to be able to meet its objectives, autonomy is commensurate with capacity
Effective oversight	Independent board &/or division of Ministry or regulator; regular reporting to board on finances, activities & <i>results</i>
Stakeholder participation	Inclusive, balanced & meaningful input from stakeholders to key decisions; rules to prevent conflict of interest
Coherent accountability lines	Coherent multiple lines accountability lines; support transparency
Firm budget constraint	Credible, budget constraint, consistent with benefits package;
CEO has appropriate skills & performance incentives	CEO appointed in transparent competition; merit-based selection; adequate salary; good career path

# Matching autonomy, accountability & capacity of the Health Purchasing Agency

HPA is an  
Operational arm  
of the Ministry,  
Administrative  
role

Ministry retains most decision  
authority  
& accountability for  
outcomes, efficiency, access,  
financial sustainability

HPA is a strategic  
Purchaser, Shaping  
Health Sector

Stronger decision authority  
over relevant policy levers  
*matched with*  
High capacity &  
stronger accountability for  
outcomes, efficiency, access  
financial sustainability

*Too little autonomy  
to be strategic*

*Too much autonomy  
weakens accountability*

## Legal and Institutional Autonomy of the Health Purchaser

Branch of Ministry  
of Health, no board.  
Accountable to  
Minister.  
Little autonomy.

Executive agency  
accountable to MOH, or  
MOH-chaired board.  
Day-to-day  
Autonomy.

Independent state  
Agency/corporation.  
Accountable to  
Labor Minister/  
Cabinet/President.

Autonomous  
statutory body.  
Accountable to elected  
stakeholder  
board & regulator  
(& legislature)

## Financial Autonomy of the Health Purchaser

In MOH budget,  
Uses Treasury &  
Tax Agency systems.  
Detailed control over  
Budget line items.

On-budget. Own Budget.  
Uses Treasury &  
Tax Agency systems.  
Flexible output budget.  
Ex-post control.

Coordinates with Budget  
Collects revenue.  
Little discretion to  
manage reserves.  
State audit.

Off-budget.  
Collects revenue.  
Manages reserves.  
Hires auditor.

*Too little flexibility or incentive  
to improve performance*

*Too much autonomy duplicates  
administration & controls*

# “No leap-frogging” - first get basics of financial control right



**Line item budgets,  
execution bottlenecks,  
controls bypassed,  
corruption in  
procurements,  
payments & audit**

**Outputs  
Outcomes  
Global budgets**

## Conductive factors for *strategic* purchasing

1. Good data
2. Effective information management systems
3. Managerial capacity and leadership
4. Effective relationship between governance actors, purchasing agencies & other key stakeholders