Strategic Purchasing for Expenditure Management

Financial Protection and Improved Access to Health Care Workshop
Accra, Ghana
February 15-19, 2016

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for Universal Health Coverage
Strategic purchasing as a complement to public financial management (PFM) reforms

- Strategic purchasing is an often underutilized health financing function that:
  - Helps balance system revenues and expenditures
  - Creates incentives for providers to improve quality and deliver services more efficiently
  - Promotes more “value for money”
  - Is closest to service delivery

- Strategic purchasing has the potential to:
  - Transform how health services are delivered
  - Improve health system performance
  - Help achieve and sustain UHC by managing within budget constraints and promoting financial sustainability
Evolution toward strategic purchasing

Weak
Money goes into system & services delivered, but little connection between the two

Passive
Output & prices defined by provider

Active
Output & prices defined by purchaser

Strategic
Output fully specified: which services & how & by whom they will be provided

Prices: financial incentives aligned with service delivery objectives

Cooperative relationship between purchaser & providers.
A range of mechanisms for strategic purchasing

- Contracting private providers to deliver package of benefits (e.g., India, Philippines, Kenya)
- Specification of the benefits package – defining what to purchase (e.g., Thailand’s comprehensive benefit with PHC focus)
- Financial incentives to government providers (e.g., Performance Based Financing in Rwanda)
- Provider payment reforms (e.g., shift from fee-for-service to capitation or case-based payments in Thailand, Vietnam, and Ghana)

“Health provider payment mechanisms --the way health care providers are paid to deliver the covered package of services—form the anchor of strategic health purchasing”

-- JLN Provider Payment Diagnostic & Assessment Guide
What are the options for provider payment?

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Line-item budget</td>
<td>Providers receive a fixed amount to cover specific input expenses (e.g., personnel, drugs, utilities,).</td>
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<tr>
<td>Global budget</td>
<td>Providers receive a fixed amount of funds for a certain period to cover aggregate expenditures. Budget is flexible and not tied to line items.</td>
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<tr>
<td>Per diem</td>
<td>Hospitals are paid a fixed amount per day that an admitted patient is treated in the hospital.</td>
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<tr>
<td>Case-based (“DRG”)</td>
<td>Hospitals are paid a fixed amount per admission depending on patient and clinical characteristics.</td>
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<tr>
<td>Fee-for-service</td>
<td>Providers are paid for each individual service provided. Fees are fixed in advance for each service or group of services.</td>
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<tr>
<td>Per capita (“capitation”)</td>
<td>Providers are paid a fixed amount in advance to provide a defined set of services for each individual enrolled for a fixed period of time.</td>
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Incentives in provider payment systems

Providers have the incentive to deliver more of the unit of payment and to minimize their internal cost per unit.

<table>
<thead>
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<th>Unit of Payment</th>
<th>Incentive</th>
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<tbody>
<tr>
<td>Fee-for-service</td>
<td>Each individual service: Increase number of services and reduce inputs per service</td>
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<tr>
<td>DRG</td>
<td>Each hospital discharge: Increase number of admissions and reduce cost per admission</td>
</tr>
<tr>
<td>Capitation</td>
<td>Each enrolled person: Increase number of enrolled persons and reduce cost per person</td>
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</table>
Discussion Question

1. What types of expenditure management mechanisms are you using?
   ▪ What have been the challenges?
   ▪ What has been successful?
Key Takeaways

• Health expenditure management is not about “cuts” or even just “costs.” It’s about how to set up a financial management system that allows purchasing of priority health services within an allocated envelope.

• Countries need a combination of sound, flexible PFM approaches and a strong strategic purchasing function.

• Health provider payment systems are the anchor of strategic purchasing.

• Countries need to make essential/priority services affordable through good purchasing, not the other way around (defining what they can afford).
For more information on Strategic Purchasing and Provider Payment Mechanisms

- **Joint Learning Network for Universal Health Coverage (JLN)**
  - Practitioner-to-practitioner learning about the practical “how-to’s” of UHC
  - [www.jointlearningnetwork.org](http://www.jointlearningnetwork.org)
  - Provider Payment Diagnostic & Assessment Guide