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# Unleashing the Potential of Strategic Purchasing

*Beyond provider payment mechanisms to the  
institutional roles, systems, and capacities  
required to implement them*

**HFG Series:**  
**Advances in Health  
Finance & Governance**

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## About the Health Finance and Governance Project

The Health Finance and Governance (HFG) Project works to address some of the greatest challenges facing health systems today. Drawing on the latest research, the project implements strategies to help countries increase their domestic resources for health, manage those precious resources more effectively, and make wise purchasing decisions. The project also assists countries in developing robust governance systems to ensure that financial investments for health achieve their intended results.

With activities in more than 40 countries, HFG collaborates with health stakeholders to protect families from catastrophic health care costs, expand access to priority services – such as maternal and child health care – and ensure equitable population coverage through:

- Improving financing by mobilizing domestic resources, reducing financial barriers, expanding health insurance, and implementing provider payment systems;
- Enhancing governance for better health system management and greater accountability and transparency;
- Improving management and operations systems to advance the delivery and effectiveness of health care, for example, through mobile money and public financial management; and
- Advancing techniques to measure progress in health systems performance, especially around universal health coverage.

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To learn more, visit [www.hfgproject.org](http://www.hfgproject.org)

## About this series

HFG's Advances in Health Finance & Governance series is designed to highlight learning and lessons from the HFG project in nine core areas: domestic resource mobilization, strategic health purchasing, health financing strategies, expanding coverage through health insurance, financial data for decision making, governance, institutional capacity building, workforce and efficiency, and building understanding for universal health coverage.

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# Unleashing the Potential of Strategic Purchasing

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## Executive Summary

If used effectively, strategic purchasing can enable a country's health system to make the best use of available resources to serve the needs of its people and improve health outcomes, making it an attractive tool for countries working to achieve universal health coverage within financial constraints. This brief highlights four factors that the Health Finance and Governance (HFG) project has learned are essential to take into account when considering strategic purchasing implementation.

## Key Lessons

- 1** When effectively implemented, **STRATEGIC PURCHASING CAN RESULT IN BETTER USE OF RESOURCES AND IMPROVED POPULATION HEALTH** by stimulating providers, subnational governments, and national entities to proactively manage their resources.
- 2** **DECISIONS TO INTRODUCE STRATEGIC PURCHASING MECHANISMS ARE SOMETIMES MADE WITHOUT FULL CONSIDERATION OF THE MANY FACTORS NEEDED TO FACILITATE THEIR IMPLEMENTATION.** Often, countries focus on the design of specific mechanisms to pay providers, but neglect what is required to implement them effectively.
- 3** Before designing and implementing specific strategic purchasing mechanisms, **IT IS IMPORTANT TO EXAMINE AND THOROUGHLY ADDRESS FOUR FACTORS: INSTITUTIONAL STRUCTURES, ROLES, AND RESPONSIBILITIES; OPERATIONAL SYSTEMS; TECHNICAL CAPACITIES; AND THE EXTERNAL ENVIRONMENT AND POLITICAL ECONOMY IN WHICH THE HEALTH SYSTEM OPERATES.**





# Introduction

The past 20 years have seen unprecedented financial commitments to health from governments of low- and middle-income countries and the donors that support them (WHO 2016). But mobilizing government and external resources is not enough to increase access to services and improve health outcomes. These funds must also be directed to priority populations, interventions, and services, and should be used efficiently to deliver high-quality care and prevention (Cashin et al. 2017). However, many countries have health spending patterns that favor utilization of higher-cost services in wealthy urban areas and incentivize inefficient provider behavior, which drives up costs and can result in ineffective treatment.

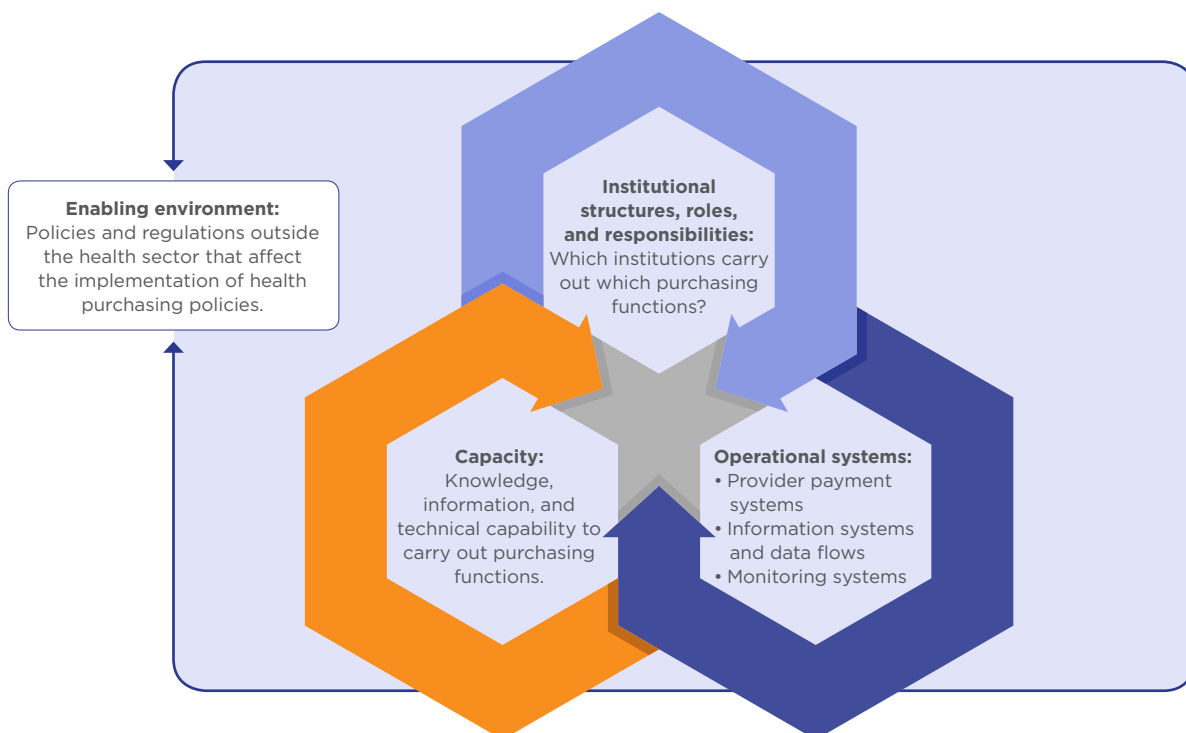
The Health Finance and Governance (HFG) project has found that countries that are most successful in expanding access to services and improving health outcomes given limited funds use the government's purchasing power to shape the health care market and service delivery system. In these countries, the public purchaser(s) – for example, social health insurance funds, ministries of health, or central procurement agencies – strategically purchase services, sometimes from both public and private

health providers, using deliberate mechanisms to get the most value for money (Maeda et al. 2014) (Tangcharoensathien et al. 2014).

Over its six years of providing technical assistance worldwide, HFG has also observed that the decision to introduce strategic purchasing mechanisms is sometimes made without full consideration of the many factors needed for successful implementation. This brief highlights what the project has learned about implementation of strategic health purchasing.

To be effective, strategic purchasing mechanisms require attention to and investment in four overlapping areas, as displayed in Figure 1: 1) institutional structures, roles, and responsibilities; 2) operational systems; 3) technical capacities; and 4) enabling environment. Carefully assigning specific roles to the institutions responsible for each purchasing function, building the operational systems needed to facilitate strategic purchasing, and developing the human capacities required for effective implementation are essential. Also critical is to assess how these institutions, systems, and capacities interact with a broader policy, regulatory,

**Figure 1: Strategic Purchasing Implementation Factors**



and operational environment that extends beyond the health sector, including issues such as public financial management systems, civil service rules, and decentralization. These external factors often influence provider autonomy and how funds can be allocated and used in the health sector.

Health sector technicians often focus on the design of specific purchasing instruments, such as results-

based financing or capitation payment, without ensuring that the above institutional structures and capacities are in place and external factors are considered. Through its experience supporting strategic purchasing reforms in more than 10 countries (see Table 1), HFG has learned that failure to fully consider these foundational elements impedes the effectiveness of strategic purchasing.

**Table 1: Examples of HFG Support for Strategic Purchasing Reform**

| COUNTRY                | HFG SUPPORT   |
|------------------------|---|
| <b>CAMBODIA</b>        | Conducted a rapid assessment of TB payment and public financial management systems to help Cambodia better target its health budget and national health insurance funds toward priority TB services and the poor population.  |
| <b>ETHIOPIA</b>        | Developed medical audits, designed financial management models at the district level, and provided training for district staff to facilitate growth of purchasing programs.   |
| <b>GHANA</b>           | Assisted Ghana in planning the scale-up of the capitation payment system for primary health care.   |
| <b>INDONESIA</b>       | Supported implementation research that assessed how capitation plus performance-based payment for primary care is being operationalized. Also identified challenges with roles between the national Ministry of Health and new purchasing agency in Indonesia's national health insurance system, as well as between national and district levels. Provided support to policymakers to revise policies and regulations to clarify roles and responsibilities for health purchasing. |
| <b>KYRGYZ REPUBLIC</b> | Supported the design of a diagnosis-related group (DRG) payment model for TB, and the transition from input-based hospital TB care to DRGs for hospital and ambulatory care.  |
| <b>MALAWI</b>          | Conducted a rapid assessment of TB payment and public financial management systems to help Malawi better target its health budget and national health insurance funds toward priority TB services and the poor.   |
| <b>MOZAMBIQUE</b>      | Reviewed the progress of a results-based financing program in Mozambique's Central Medical Store.   |
| <b>MYANMAR</b>         | Supported implementation research of a strategic purchasing pilot that informs scale-up of a model in which local governments or other semi-autonomous entities purchase primary care services from private sector providers and pay using a combination of capitation and performance-based payments.  |
| <b>PHILIPPINES</b>     | Conducted a rapid assessment of TB payment and public financial management systems to help Philippines better target its health budget and national health insurance funds toward priority TB services and the poor.  |
| <b>UKRAINE</b>         | Designed, developed, and implemented a new case-based TB hospital payment system using DRGs and supported coordination between oblast and national health financing reforms.  |
| <b>VIETNAM</b>         | Supported refinements to design and institutional arrangements for social health insurance.   |





A purchasing system that uses resources efficiently to support well-defined health objectives can make all the difference for infants like this Indonesian girl, shown with her mother and doctor during a routine check-up.



## Factors Essential to Effective Strategic Purchasing

### Factor 1:

#### Institutional Structures, Roles, and Responsibilities

Establishing clear institutional roles and relationships, both desired and actual, makes it possible to identify who has the authority for which strategic purchasing policies and is accountable for implementing them. By contrast, unclear institutional relationships – particularly between a ministry of health and a separate purchasing entity, such as an insurance agency – can create inertia and sometimes conflict, both of which stall the implementation of strategic purchasing reforms.

In some countries, institutional roles can be directly at odds with one another. HFG's review of purchasing regulations in Indonesia concluded that the Ministry of Health makes policy decisions that affect purchasing and provider payment, but is not accountable for the financial consequences of these

policies. In contrast, the purchaser is responsible for balancing revenue with expenditure, but does not have the authority to determine the policy levers that would enable this control. Similar observations emerged from Vietnam. In other countries, institutional roles are clear but not supported by the needed authority: in Ghana, the Ministry of Health has policy and regulatory authority in some areas to support strategic purchasing, such as setting service delivery standards, but has not taken steps to exercise it, resulting in obstacles and inertia.

To assess and improve these structures, responsibilities for strategic purchasing functions should be mapped across each institution at the national and subnational levels (e.g., design and implementation of provider payment systems, payment rate-setting, and provider monitoring). HFG conducted this kind of functional mapping analysis in Indonesia, for instance, where a lack of clarity in the legislation and regulations related to strategic purchasing responsibilities in the

country's national social insurance program, Jaminan Kesehatan Nasional (JKN), has impeded performance. The new purchasing agency has responsibility to manage the single pool of funds in the health insurance system, but many purchasing functions continue to be housed in the Ministry of Health. As a result, strategic purchasing has been limited and JKN expenditures are rising rapidly, with limited evidence of improvements in service delivery, quality, efficiency, and financial protection.

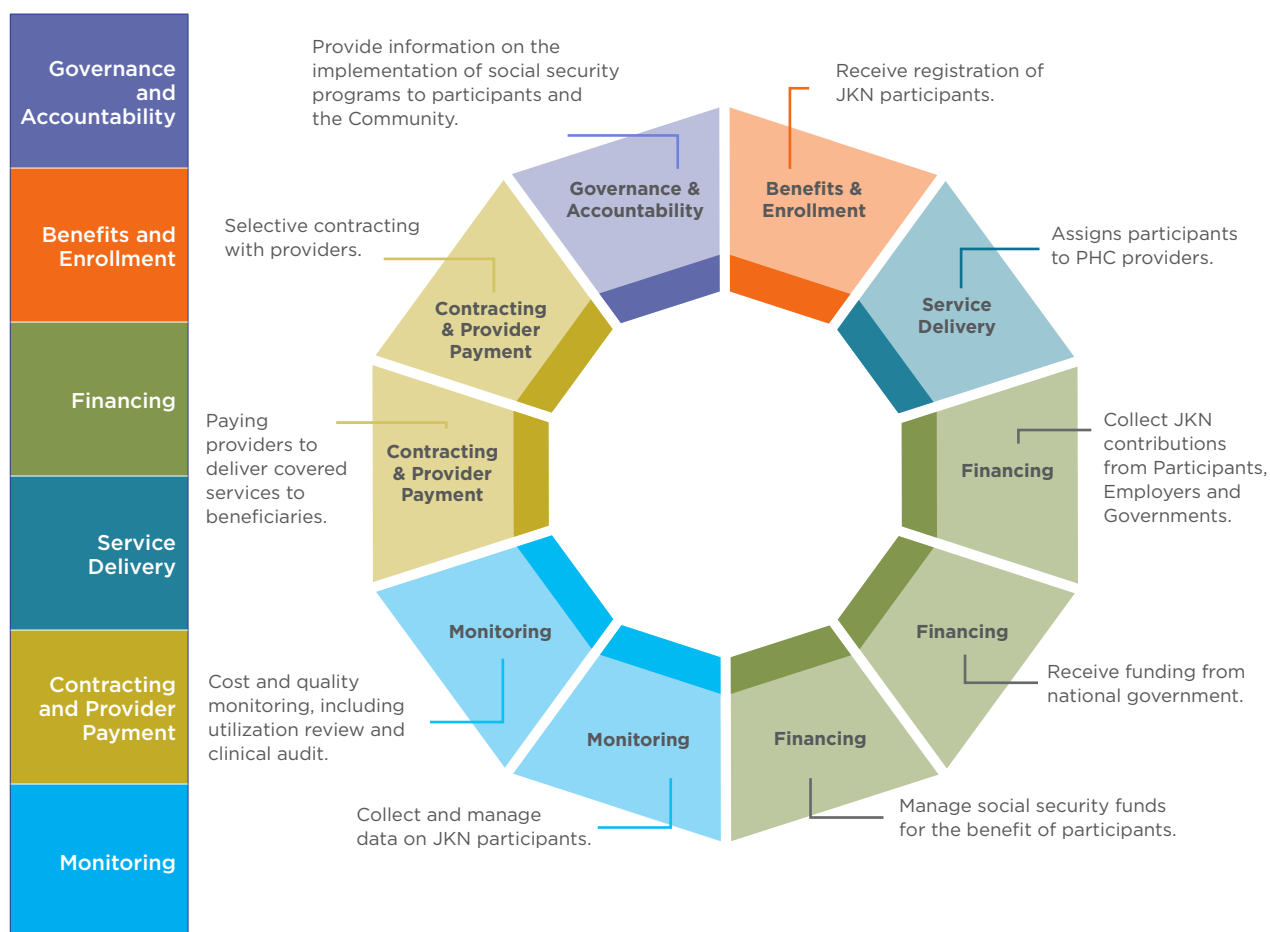
To address this, HFG provided a tool to help key stakeholders examine which institutions are responsible for carrying out key health purchasing functions, identify areas of misalignment, and propose institutional or regulatory reform. When conducting such a mapping, institutional relationships and roles should be identified for each of these functions that are optimal for the country's context, which in turn should be reflected in regulations, policies, and institutional mandates.

## WHICH INSTITUTIONS ARE RESPONSIBLE FOR WHAT? A MAPPING EXERCISE IN INDONESIA

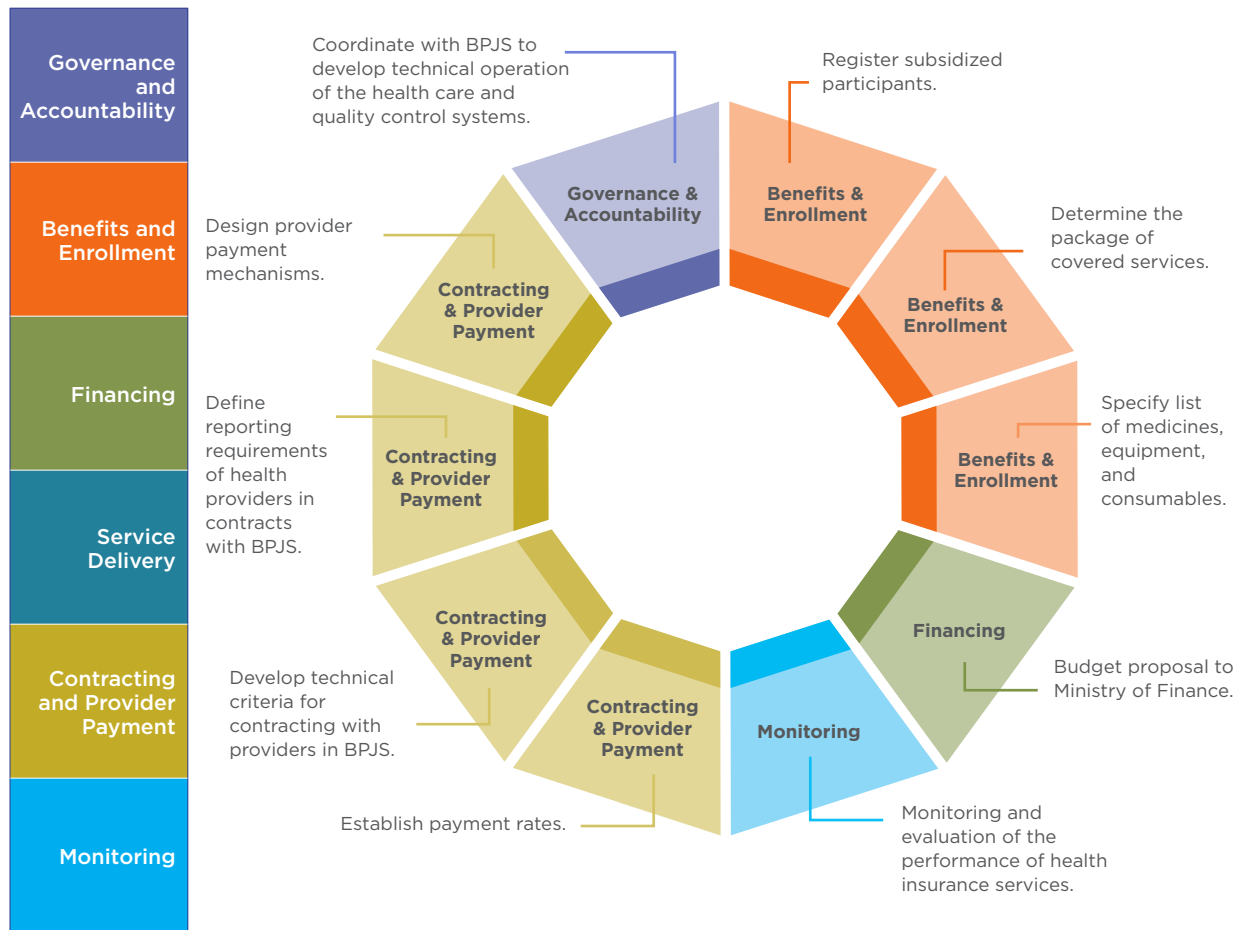
With HFG support, Indonesia examined the purchasing functions of seven institutions under its national health insurance program. The analysis categorized responsibilities into six major groups, shown by color in the graphics below.

The wheels show the purchasing functions for two institutions: the *Badan Penyelenggara Jaminan Sosial-Kesehatan* (Social Health Insurance Administration) and the Ministry of Health.

### Purchasing Functions within the Badan Penyelenggara Jaminan Sosial-Kesehatan (BPJS-K)



## Purchasing Functions within the Ministry of Health



### RESULT:

The mapping exercise revealed that although a new purchasing agency, the BPJS-K, had been established to implement the national health insurance system, many purchasing functions were retained by the Ministry of Health. Thus, the responsibility for some of the functions was not sufficiently clear. The exercise also revealed gaps in responsibility for certain functions.



## Factor 2:

### Operational Systems

Operational systems that support strategic purchasing functions include provider accreditation and empanelment,<sup>1</sup> contracting, provider payment systems, provider performance and quality monitoring systems, and others that strategic health purchasers rely upon daily to fulfill their responsibilities and accomplish their goals. All of these systems should be underpinned by a well-functioning information system. They should incorporate in ongoing monitoring and be flexible enough to be refined and updated as new challenges emerge.

When operational systems are functioning properly, purchasers are able to contract effectively with providers, validate claims, manage payments to providers, and monitor delivery of services for beneficiary populations in a way that achieves higher-level objectives, such as improving access to services, quality, financial protection, and system sustainability. By contrast, weak systems impose risk that the potential benefits of a strategic purchasing system, such as greater equity or improved efficiency, will not be achieved, and financial sustainability of the system is sometimes threatened. In Vietnam, HFG found that weak IT systems diminished the effectiveness of strategic purchasing by limiting the availability of real-time information about beneficiaries who access multiple health facilities within a short timeframe, information that could be used to help curb any fraud that might be occurring. This weakness enables high rates of self-referral and “provider shopping,” and excess billing by providers is driving up costs.

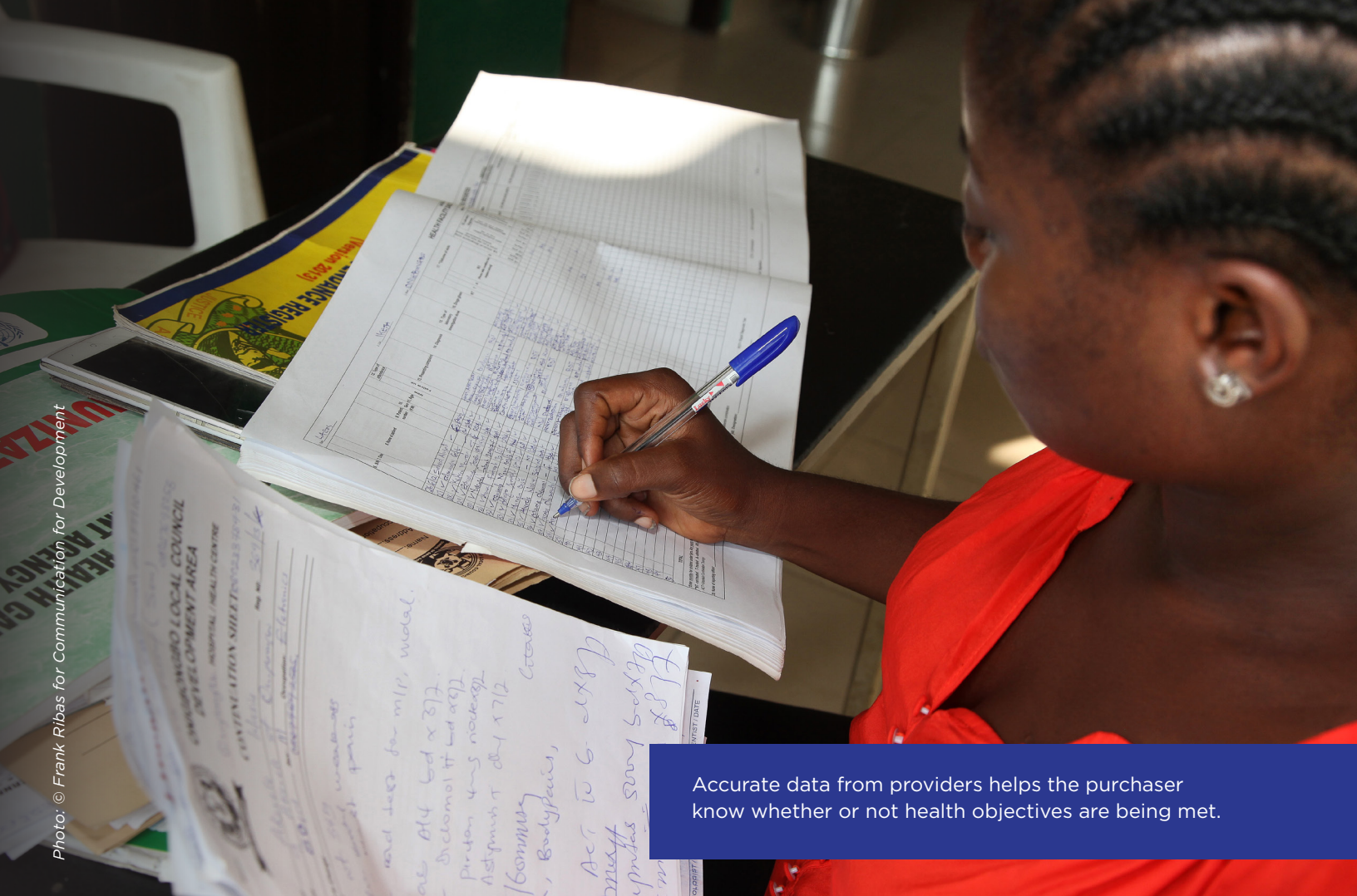
Good operational systems require investment in IT systems and human resources. A positive example of this emerged from Ukraine. HFG supported the development of a provider payment early-warning system that enables purchasers to identify when a payment mechanism is catalyzing negative service utilization or financial outcomes, such as under-provision of services. It also allows cross-region comparisons and scenario analysis, which shows potential cost savings generated by closing

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unnecessary hospitals and shifting to ambulatory care, and the potential impact on providers and the population.

To assess and improve operational systems for strategic purchasing, operations research can help diagnose challenges and identify improvements. In Ghana, HFG supported the National Health Insurance Authority (NHIA) in overcoming operational system constraints to generating analyzable claims data. The NHIA is implementing an e-claims application to automate the claims data, but scale-up has proceeded slowly and most providers continued to submit their claims in summary form using Excel. The HFG-supported data-quality diagnostics identified problems with the structure, format, and connectivity of the summary data that made it impossible to analyze. As an interim solution during the transition to electronic claims, HFG helped the NHIA introduce a standardized version of the Excel-based summary form that includes unique identifiers (to allow data to be aggregated) and filters and drop-down menus (to improve data quality). The new form collects the same information that providers were already submitting, so scaling up its use has been relatively easy and has generated analyzable data for monitoring key indicators to assess provider responses to provider payment systems.

<sup>1</sup> Provider empanelment is the process of determining whether providers meet the service delivery and reporting preconditions to receive payments from BPJS-K.



Accurate data from providers helps the purchaser know whether or not health objectives are being met.

## Factor 3:

### Technical Capacity

Technical capacity refers to the knowledge, skills, expertise, and ability of key actors (purchaser, provider, or regulator) to carry out their roles and responsibilities, and constantly improve operational systems (Factor 2). These entities must function effectively together to achieve strategic purchasing goals. Purchasers need to know how to select provider payment systems to meet specific objectives, have the capacity to design and manage them effectively, and be able to monitor and refine them. Providers should know how to manage resources, have the authority to do so, and know how to submit accurate data required by the purchaser. Subnational levels of government should be able to manage financial flows effectively to ensure health objectives are met at the local level. When key entities lack the necessary skills and

experience, it limits the range of strategic purchasing tools that can be implemented and prevents operational systems from functioning effectively.

In Indonesia, HFG is building local capacity to monitor the effects of purchasing policies. Its local partner is carrying out implementation research that helps national- and local-level stakeholders diagnose whether Indonesia's national insurance program is being implemented as intended and whether revisions to processes and/or policies are needed. This work has identified that the policy of paying primary care centers partly by capitation is resulting in neglect of preventive and promotive care by some providers and is not clearly improving provider performance (HFG nd.).

To assess and improve technical capacity for strategic purchasing, HFG has successfully used a number of approaches: training-of-trainer programs for implementers, targeted short-session sensitization for key stakeholders, web-based

information exchange, implementation research to identify challenges in policy or implementation, and practitioner-to-practitioner exchanges with strategic purchasing leaders and implementers in other countries. These are selected based on what makes most sense given the country context. In Ethiopia, HFG developed manuals and provided training to woreda (district)-level Community-Based Health Insurance (CBHI) teams on conducting medical and financial audits of facility claims and financial management of CBHI at the woreda level. In Ghana, HFG designed a training-of-trainers program to implement capitation payment in the National Health Insurance Scheme (NHIS). More than 600 district NHIS staff were trained by 50 national and regional trainers trained by HFG.

By contrast, HFG supported a more centralized, multi-pronged capacity-building program in Indonesia that included a university-based series of half-day sessions targeted to different stakeholder groups. These sessions were supported by a web-based platform for knowledge sharing, an institutional exchange with a mature purchasing agency (e.g., Indonesia's BPJS-K visit to Maryland State Center for Medicare and Medicaid), and a cross-country learning exchange through the Joint Learning Network for Universal Health Coverage on strategic purchasing in decentralized settings with Argentina, Chile, and Nigeria. During the learning exchange, countries offered several examples of performance-based contracts between national and subnational levels and options for accountability.

## Factor 4:

### Enabling External Environment

Finally, HFG has observed that reforms are vastly easier when there is an enabling policy and regulatory environment beyond the health sector to facilitate strategic purchasing.

First, an enabling public financial management environment can facilitate core strategic purchasing reforms. Some flexibility in rules governing the allocation and use of public funds can allow a purchaser to pay health care providers for outputs or results (e.g., services delivered or persons registered) instead of only inputs (e.g., line-item

**Flexibility in rules governing the allocation and use of public funds can allow a purchaser to pay health care providers for outputs or results (e.g., services delivered or persons registered) instead of only inputs (e.g., line-item budgets for labor or supplies).**

budgets for labor, supplies, etc.). This ensures that providers are incentivized in a way that maximizes health outcomes, and allows public health care facilities to manage their costs and retain at least a portion of efficiency savings. Some countries are reluctant, however, to put funds directly in the hands of frontline providers and allow them to make management and service delivery decisions because of a belief that providers lack the necessary financial management skills and, in some cases, corruption concerns.

Another component of the enabling environment involves civil service regulations. Civil service rules that impose rigid hiring/firing guidelines can neutralize purchasing incentives for better performance. They can also impede important efforts to rationalize the health workforce. Conversely, allowing autonomy for health facilities to hire, fire, and assign staff can help them manage labor costs more efficiently, especially when they are being paid via capitation or case-based payments. HFG observed the effects of this while partnering with the National Health Insurance Agency in Ghana to support the financial sustainability of the NHIS. During this process, pressure from physician associations resulted in large increases in civil servant salaries for health workers, regardless of health worker performance. Since salaries continue to be paid separately from output-based payment methods in the NHIS, this change added budgetary pressure and further constrained the government's ability to realize the efficiency benefits of paying for outputs through the NHIS.

Districts in a decentralized governance system may control decisions about how federally transferred funds are allocated across sectors. This can result in funds allocated to sectors other than health, such





Targeted training can equip key actors with the knowledge and skills to carry out their responsibilities within the health purchasing system.

as education or local infrastructure. Local decision-making authority may support or conflict with national policies – for example, whether facilities must have input- or output-based financing systems – and the ways local governments interpret and react to conflicting or unclear regulations and policies may differ. Donor funding and rules can help or hinder strategic purchasing. For instance, earmarked funding for specific health areas, such as for HIV/AIDS or family planning, may introduce rigidities into the way countries purchase services.

Strategic purchasing reforms can face political economy challenges. When funding flows change, there are almost always winners and losers. In some environments, a strong policy and regulatory environment can help mitigate friction and

opposition to change, while in others regulations introduce rigidities. Some technical tools can also help navigate political economy challenges. In Vietnam, HFG supported the use of a simple Excel-based simulation model that showed which districts may gain or lose under a proposed change to the capitation payment model. This model helped the Ministry of Health's dialogue with stakeholders to prepare for the policy change. HFG has observed that when government leadership changes, there is a risk that strategic purchasing reforms instituted by a previous administration may be reversed. Kyrgyzstan guarded against such change by passing laws stating that provider payments must be based on DRGs; this paved the way for phasing in DRG payment for TB with HFG support.



## Conclusion and Recommendations

Too often, good ideas about provider payment mechanisms or other aspects of purchasing design do not come to fruition because insufficient attention is paid to the many factors needed to facilitate implementation.

To help ensure strategic purchasing reaches its potential to support health system objectives, the following should be considered:

- More time and effort should be spent examining implementation factors and diagnosing gaps, applying some of the tools and approaches developed with HFG support. Refer to the data analytic toolkit that guides countries on identifying trends and challenges to their provider payment systems (The Joint Learning Network et al. 2017), or to HFG's framework linking strategic purchasing implementation to the quality of maternal health services in the Kyrgyz Republic, Nigeria, and Zambia for examples (Beith et al. 2017) (Wright 2017).
- Plans that define and strengthen the institutional roles and relationships needed to support flexible operational systems should

be developed and implemented. A simple mapping of existing roles and relationships for strategic purchasing and identification of gaps or conflicts can provide a good basis for dialogue that can lead to a plan.

- More attention is needed to ensure that the technical capacity to assume strategic purchasing functions is enabled. Different approaches to capacity building have been tested through HFG and can be combined to be most effective in a given country context, such as HFG's work in the Kyrgyz Republic supporting the transition to case-based financing of TB (HFG nd.).
- More informed dialogue is needed between national and local governments and branches of government such as health, finance, civil service, and social security authorities to ensure an enabling external environment supports strategic purchasing objectives. HFG and JLN conducted a learning exchange on strategic purchasing in decentralized contexts to help Indonesia move toward universal health coverage (The Joint Learning Network 2017).





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