

Analytical Framework to assess Governance for Strategic Purchasing

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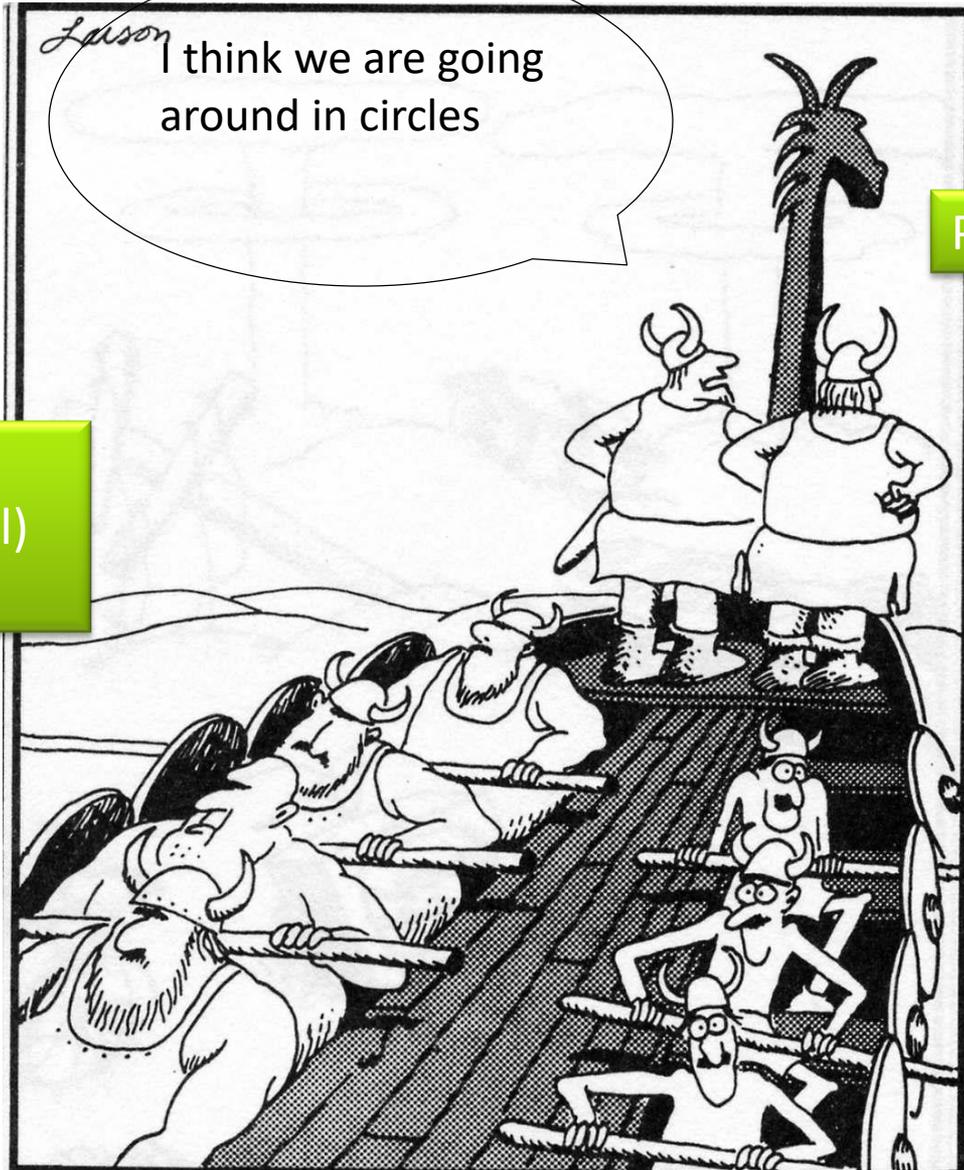
Department of Health Systems Governance and Financing



World Health
Organization

I.

Strong governance would help!



Providers and
(pharmaceutical)
industry

Policy makers

Purchasing actors
and patients

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

=>

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

MOH

National Health Insurance Scheme

Voluntary health insurance

Local government/
Local health administration

Other ministry

3. Governance of a purchasing agency

Govt/MOH/oversight bodies

Health Purchaser Agency

Accountability

Accountability

Beneficiaries,
contributors & citizens

Conducive 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