

GOVERNANCE FOR STRATEGIC PURCHASING:

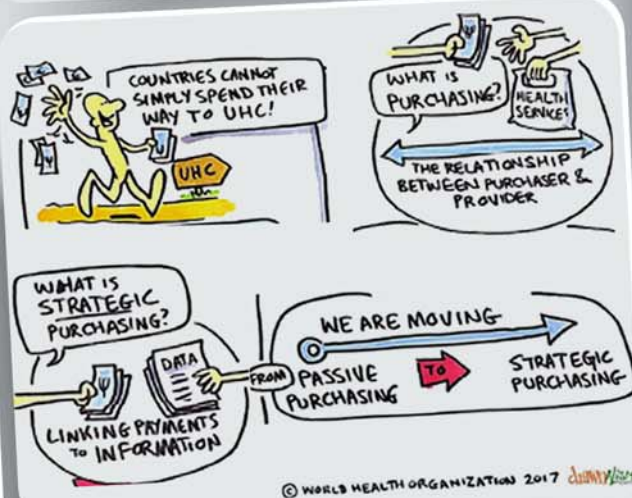
AN ANALYTICAL FRAMEWORK TO GUIDE A COUNTRY ASSESSMENT



STRATEGIC PURCHASING

Governance

Payment methods



Benefits

Information management



World Health Organization

HEALTH FINANCING GUIDANCE NO. 6

**GOVERNANCE FOR STRATEGIC
PURCHASING:
AN ANALYTICAL FRAMEWORK TO
GUIDE A COUNTRY ASSESSMENT**



**Governance for strategic purchasing: an analytical framework to guide a country assessment
(Health Financing Guidance, No. 6)**

ISBN 978-92-4-000002-5

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Printed in Switzerland.

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ACKNOWLEDGEMENTS

This guidance document was prepared by Loraine Hawkins, Inke Mathauer and Aurelie Klein.

The authors are grateful for helpful peer review, comments and suggestions from Ayako Honda, Fahdi Dkhimi, Lisa Seidelmann, Lluís Vinals, Dave Clark, Dheepa Rajan and Tomas Roubal on earlier versions. We also thank colleagues in the WHO Department of Health Systems Governance and Financing for useful comments and feedback during a peer review meeting. The analytical framework on governance for strategic purchasing also benefited from valuable discussions during a global meeting on strategic purchasing in April 2017 and from country assessments in Egypt and Tunisia, for which a draft version of this document was applied. Last but not the least, we thank Joe Kutzin and Agnes Soucat for overall guidance, inspiration and comments.

We also gratefully acknowledge financial support received through a voluntary contribution to WHO from the Government of Japan.

EXECUTIVE SUMMARY

This document sets out an analytical framework for assessing a country's governance arrangements for the purchasing function. The purpose of such an assessment is to assist policy-makers and policy advisors in determining whether the existing governance arrangements for the purchasing function are conducive to more strategic purchasing. It can identify gaps in governance arrangements that prevent more strategic purchasing and options for overcoming those gaps.

The analytical framework takes a comprehensive approach to governance. It is designed for assessing the governance of both the health care purchasing system and of an individual purchasing agency, thereby focusing on mandatory health insurance and government health purchasing schemes.

Section 1 of the document provides definitions of strategic purchasing and governance and describes the methods of the assessment. 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”. It equally applies to specific health system components as well as aspects of health financing. 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.

Section 2 describes the concepts and outlines the four areas to be assessed in relation to the governance of the purchasing function. These are listed in the box below.

Assessment areas:

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

=> Summary assessment of governance for strategic purchasing and development of recommendations

In most countries, the health financing system consists of more than one healthcare purchaser that fund and purchase health services. By “governance of the health care purchasing system”, we mean active management by policy-makers and other governance actors (or stewards) of the roles

and relations between different health purchasers and between the governance actors and purchasers. Core governance tasks related to the healthcare purchasing system include setting directions, coordination and alignment, and the setting of legal provisions and regulations.

There are a number of governance requirements that are relevant at the level of a purchasing agency. These are specifically geared to direct a purchaser to operate strategically, i.e. to use levers to create an environment that enhances efficiency and quality in health care service

delivery by providers. The framework outlines indications for effective governance arrangements at the agency level and provides examples of potential deficits in these nine governance arrangements and their effects. These nine governance requirements are listed below.

1. Clear and consistent decision-making rules related to purchasing for Ministry of Health, oversight body and purchaser
2. Public interest mandate and clear objectives to give the purchaser strategic direction and to act strategically
3. Sufficient autonomy and authority for the purchaser to act strategically to meet objectives, commensurate with capacity
4. Effective oversight
5. Inclusive and meaningful stakeholder participation
6. Coherent multiple accountability lines supporting transparency
7. Firm and credible budget constraint
8. Selection of head of purchasing agency based on appropriate skills and performance incentives to guide operations
9. Compliance rules relating to the management and control of funds by the purchaser.

The framework also identifies four factors conducive to effective governance for strategic purchasing. These relate to the realm of management of both the purchasing actors and governance actors. These factors are critical for the governance of the health care purchasing system and for the agency level and include: 1) good data to inform strategic planning and operations; 2) effective information management system to handle governance and purchasing tasks; 3) managerial capacity and leadership of governance and purchasing actors; and 4) effective relations among governance actors, purchasing agencies and other stakeholders.

Section 3 presents the respective assessment steps for the four areas, which are to be recapped in a summary assessment at the end. Each step provides a set of guiding questions, including tables to organize the collection of information. The guiding questions facilitate the country assessment and help to identify key strengths and challenges. On this basis specific recommendations including short- and long-term actions can be developed to contribute to improved governance for strategic purchasing.

1. INTRODUCTION

Governance is an overarching health systems function for ensuring that “strategic policy frameworks exist and are combined with effective oversight, coalition-building, regulation, attention to system-design and accountability” (1). It applies equally to specific health system components and to aspects of health financing. Governance of the purchasing of health services has, however, received little attention in either research or policy practice, despite its importance (2). Effective governance arrangements are a critical enabler of strategic purchasing, as making purchasing more strategic requires strong coordination of all key actors, clear rules for decision-making and appropriate regulations. Strategic purchasing, in turn, is vital for progress towards universal health coverage

(3). Strategic purchasing transforms budgets and funds into benefits, with the aim of distributing resources more equitably and realizing gains in efficiency. This frees resources that can be used to extend coverage. Strategic purchasing can also send signals to health providers to improve the quality of health services (4). However, weak or absent governance arrangements provide an inadequate institutional and regulatory context, which makes it difficult to take decisions for moving towards strategic purchasing and implementing those decisions. In many countries, the governance arrangements in health systems, particularly with respect to purchasing, function poorly and are under-developed or even absent. Another challenge is insufficient capacity for governance (5).

1.1 PURPOSE AND OVERVIEW

This document sets out an analytical framework for assessing a country’s governance arrangements for the purchasing function. The purpose of such an assessment is to assist policy-makers and policy advisors in determining whether the existing governance arrangements for the purchasing function are conducive to more strategic purchasing. It can identify gaps in governance arrangements that prevent more strategic purchasing and options for overcoming those gaps.

The analytical framework serves to guide the assessment of governance arrangements for the purchasing function, with a focus on mandatory health insurance and government health purchasing schemes. The latter may include publicly funded coverage schemes for the poor, a central ministry of health or provincial health authorities. While building on the publication by Savedoff and Gottret (6) (“Governance of mandatory health insurance”), this framework goes further and focuses on governance arrangements that

induce purchasers to operate strategically. It also looks at a wider range of purchasing agencies, through a system perspective. The framework is not designed for assessing governance aspects of voluntary health care payment schemes, such as voluntary health insurance (6, 7), nor for assessing the specific governance issues related to competing health insurance funds (6). Nor does the framework cover governance arrangements for the health financing functions of revenue-raising and pooling, although many governance mechanisms relevant for purchasing are also relevant to those functions. Finally, the framework does not provide guidance for closer assessment of broader public financial management (PFM) in the health sector (Cashin et al., provide detailed guidance (9)). PFM aspects are vitally important for any well-governed organization and influence the context of governance of strategic purchasing.

This framework can be applied by policy analysts at ministries of health, finance, labour and other ministries in charge of governance and of purchasing agencies as well as purchasing and governance specialists. The target audience for this assessment are policy makers and policy advisors in the field of strategic purchasing.

Section 2 of the document describes the concepts and outlines the four areas to be assessed in relation to the governance of the purchasing function. Section 3 presents the respective assessment steps for the four areas, which are to be recapped in a summary assessment at the end. Each step provides a set of guiding questions, including tables to organize the collection of information.

Assessment areas:

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

=> Summary assessment of governance for strategic purchasing and development of recommendations

1.2 DEFINITION OF KEY CONCEPTS

Purchasing of health services refers to the relations between health financing agencies and the providers of health services that they pay to deliver health care to their beneficiaries (10).

A **purchaser** (or purchasing agency) is an agency that purchases health services on behalf of its members or a specific population group from pooled funds.

Strategic purchasing means the active use of purchasing functions, tools and levers by a health financing agency *to achieve the strategic objectives set for the health purchaser(s) to contribute the wider health system objectives*. These include: financial protection, affordable access to effective health services according to need, financial sustainability, improvement in the health of

the population, improvement in the quality and efficiency of health services and equity (11).

A purchaser engaged in strategic purchasing serves the collective public interest. Its main objectives are to meet beneficiaries' health needs and ensure their financial protection and equitable access to high-quality health services, while balancing these objectives with the interest of contributors or taxpayers in financial sustainability and the government's wider social objectives, such as context-appropriate working conditions for health workers. An intermediate objective is "more health for the money", i.e. efficient use of resources.

Governance is an overarching health systems function and also applies to specific health financing aspects such as purchasing. As stated above, it seeks to ensure that

"strategic policy frameworks exist and are combined with effective oversight, coalition-building, regulation, attention to system-design and accountability" (1). Governance is also referred to as exercising authority, setting roles and responsibilities and shaping the interactions of the various health actors, i.e. purchasers, providers, provider associations, society and beneficiaries (6). Various organizations take on the role of a governance actor, such as the ministries of health, finance, labour or social affairs, and also oversight bodies (such as a health insurance oversight board) or a health insurance regulatory agency.

This analytical framework takes a comprehensive approach to governance. It is designed for assessing the governance of both the health care purchasing system and of an individual purchasing agency, as described below.

1.3 METHOD OF ASSESSMENT

The guiding questions presented in Section 3 will support a systematic and comprehensive analysis. These guiding questions, sometimes in table format, highlight the issues and directions to be explored.

The proposed assessment method comprises:

- document review (published and grey literature related to overall governance and purchasing in the country, including mid-term health sector reviews or a health systems performance assessment);
- interviews with the main purchasing agencies and governance actors, as well as other resource people and stakeholders; and
- discussions with patients covered by the purchaser or representatives of patient associations, if possible.

The scope of the study, the number of people interviewed and the analysis of secondary data will depend on the focus of the study, chosen on the basis of the country's priorities and on the time and resources available. The study team can adapt the guiding questions to the purpose of the assessment. The framework should therefore not be applied rigidly, i.e. not every question or every cell may need to be answered. Instead, the guiding questions serve to point to the key issues and directions to be explored. Moreover, the assessment could focus on a specific region of the country (e.g., a state, region, or district) to provide a zoom-in on a specific purchasing situation and its governance arrangements.

Possible interview partners are:

Governance actors	Purchasers	Others
<ul style="list-style-type: none"> • Ministry of health • Ministry of finance • Ministry or agency in charge of overseeing national health insurance (e.g. ministry of labour, ministry of social welfare, president's office) • Ministry in charge of community-based health insurance • National or provincial assemblies • Provincial and local government health authorities 	<ul style="list-style-type: none"> • Ministry of health (departments in charge of specific coverage schemes at central or subnational levels) • Local governments, municipalities • National or subnational health insurance schemes • Community-based health insurance, complementary insurance • Voluntary health insurance scheme • Purchasing administrators (e.g. health management organizations, commissioning board) 	<ul style="list-style-type: none"> • Development agencies • Researchers working on purchasing • Civil society organizations • Patients • Patient groups and associations, users' associations • Providers' associations, medical associations • Formal and informal workers' associations (e.g. labour unions)

The information collected will inform a policy dialogue when all stakeholders are brought together. The aim of discussions should be to validate the findings and identify opportunities and entry points for strengthening governance for strategic purchasing. Suggestions and success factors for organizing such policy dialogue have

been provided by WHO (12). Governance issues are complex and can be sensitive, touching upon aspects such as power relations. Bringing diverging interests together in a productive and, constructive way will ensure that the assessment will provide added value (see Schmets et al., (13) for guidance).

2. ANALYTICAL FRAMEWORK

2.1 THE GENERAL GOVERNANCE CONTEXT DETERMINES THE SCOPE OF GOVERNANCE FOR STRATEGIC PURCHASING

The broader (socio-)economic, fiscal and political governance contexts in which purchasers operate are important, as they may influence the governance of purchasing and the priorities and feasibility of improving it. In some resource-poor countries with severe capacity constraints, overall governance might limit the purchaser from making progress in achieving some of its objectives of managing resources and improving health system performance. Likewise, problems in the wider public financial management system or in reconciling public financial management reform with the health purchasing agenda can significantly affect governance for strategic purchasing. Conversely, a modern, well-functioning public financial management system can create opportunities for strengthening and streamlining governance for strategic purchasing. Political stability, coherence, and credible policies are also

needed to ensure sufficient predictability, so that purchasers can develop medium-term strategies for moving towards more strategic purchasing.

Specifically, the overarching governance arrangements of the health system determine the scope of governance for strategic purchasing. These arrangements include regulation of providers and provider markets, the degree of provider autonomy and health system policies, e.g. on human resources for health, procurement, medicine pricing or health technology assessments, that affect the scope of action of governance of the purchasing function. Regulations and mechanisms for consumer protection also assist in the governance of a purchasing agency. A better understanding of the broader context, identifying governance actors and mapping purchasers is the starting point for a country assessment.

2.2 GOVERNANCE OF THE HEALTH CARE PURCHASING SYSTEM FOR COORDINATION, ALIGNMENT AND REGULATION

In most countries, the health financing system includes more than one purchaser that funds and purchases health services or health-related services (such as social services). By “the health care purchasing system”, we refer to all health care

purchasers (e.g., a mandatory health insurance agency, the ministry of health, government health coverage programmes, voluntary health insurance schemes, etc.) that interact with providers to buy health services.

By “governance of the health care purchasing system”, we mean active management by policy-makers and other governance actors (or stewards) of the roles and relations between different health purchasers and between the governance actors and purchasers. These system-

wide tasks have also been described as the “stewardship” function (1). The effective exercise of the health system function of governance is a critical enabler for strategic purchasing. Core governance tasks related to the health care purchasing system are listed in Box 1.

Box 1. Core governance tasks related to the overall health care purchasing system

Setting directions:

- policy analysis and strategy development for creating legal frameworks that facilitate strategic purchasing for purchasers and providers;
- managing the dynamics and sequencing of reforms;
- ensuring that a functioning integrated or interoperable information management system is in place.

Coordination and alignment:

- coordination among stakeholders, including communities, civil society and representatives of the population;
- consultation with and ensuring input by the population and civil society into the broad orientation of strategic purchasing;
- defining and managing a coherent division of labour and effective decision-making on purchasing among purchasers and governance actors;
- alignment with other health financing functions and other health system aspects (e.g. service provision, provider market regulation, accreditation, medicines pricing, health technology assessment).

Legal provisions and regulation:

- setting legal provisions on purchasing, such as regulation of purchasers and (public and private sector) providers, including whether and how they compete, the degree of integration or separation among providers and purchasers and mechanisms for price control in the public and private sectors;
- alignment or unification of information management systems (e.g. patient records, data bases) across different purchasers to improve policy analysis;
- alignment of benefit design, provider payment mechanisms and rates, including cost-sharing mechanisms across different purchaser and health coverage schemes;
- alignment (“shaping”) of public financial management rules to create scope and space for strategic purchasing, including issues of provider autonomy in the public sector;
- specification of the role of voluntary health insurance (VHI) and regulation of the VHI market, including mechanisms for price control;
- when applicable, setting up of a functional regulatory agency.

Fulfilling these tasks requires leadership by those in charge of governance, such as the Ministry of Health or a committee with representation of several ministries and other stakeholders. The main governance actor and the other actors involved must have the institutional and technical capacity to fulfil governance tasks. They should also be supported, respected and legitimized by the stakeholders, i.e. patients, beneficiaries, citizens, purchasers, providers and health worker associations.

How and by whom governance tasks will be assumed depends on the organization of the health care purchasing system. Comparison of different country settings led to the identification of six main types of health care purchasing systems: (1) a single-purchaser setup, (2) a multiple-purchaser system, (3) a system with non-competing purchasers for different population groups, (4) a purchasing setup that combines national and local purchasing, (5) a system in which supply-side financing for public providers plays a major role and (6) a system in which out-of-pocket expenditure and/or voluntary health insurance plays a major role. These organizational patterns are not mutually exclusive, and, in most settings, the structure of the purchaser system includes more than one pattern. A brief description of these and the opportunities and challenges they offer for strategic purchasing are presented in Table 1, with further explanation below.

Some countries have a single, dominant public purchaser or mandatory health insurance agency that pools almost all funds for individual health services, whereby additional budgets for public health, usually managed by the ministry of

health, play a more limited role. This is one of the least complex governance options for facilitating strategic purchasing.

Even in countries with a single purchasing agency, multiple funding flows to providers are common. Supply-side financing continues to prevail, in particular for health prevention and promotion and other public health surveillance activities, as is the case in several low- and middle-income countries, such as Ghana and the Philippines. Also, complementary or supplementary voluntary private health insurance is generally available, usually covering better-off populations who can afford and want additional coverage. There is always a potential risk that voluntary health insurance negatively affects equitable access if it is not well regulated (14). In resource-poor health systems with very limited benefits from public pooled sources, many providers receive substantial revenues from private sources (out-of-pocket expenditure and voluntary health insurance). In this context, the boundary between publicly and privately financed services may be difficult to monitor and enforce, limiting the capacity of the purchaser to prevent providers from diverting patients to private services, thus undermining the purchaser's objectives. It is also common that some categories of government health expenditure (such as population-based public health services and health-related social services) are managed by another agent – often the ministry of health, an agency subordinate to it and/or local governments. This multiplicity of actors requires stronger coordination to ensure coherent incentives for providers in line with purchasing objectives.

Table 1. Types of organization of the health care purchasing system and opportunities and challenges for strategic purchasing

Types of system organization	Opportunities for strategic purchasing
<p>1. A single national purchaser of most individual health services (e.g. Estonia, Slovenia)</p>	<p>Strong financial and contractual leverage over individual providers and influence over whole provider market</p>
<p>2. Competing purchasers, open to all (e.g. Israel, Netherlands)</p>	<p>Consumer choice may encourage responsiveness and efficiency</p> <p>Less opposition for purchaser to use selective contracting than for single purchaser.</p>
<p>3. Non-competing purchasers covering different population groups (e.g. Thailand, which has separate schemes for civil servants, the formal private sector and the rest of the population)</p>	<p>Benchmarking of purchasers is possible if funding and benefits packages are comparable</p> <p>Calls for a unified information platform (e.g., patient records, data bases) to facilitate this benchmarking and to support policy analysis across different coverage schemes.</p> <p>May be easier for each purchaser to use selective contracting than for a single purchaser.</p>
<p>4. Combination of national and local purchasing, with certain services purchased at national level and other locally (e.g. Austria, England)</p>	<p>Allows optimal mix of economies of scale for some purchasing functions</p> <p>Enables local accountability and local provider engagement</p> <p>Allows innovation of other purchasing functions</p> <p>Benchmarking of local purchasers possible if funding and benefits packages are comparable.</p>
<p>5. Supply-side financing (e.g. through ministry of health budget allocations) plays a major or almost exclusive role in funding individual health services. When there is a separate purchaser, it finances only a part of costs.</p>	<p>Supply-side allocations can be distributed more strategically, or supply-side levers can complement purchasing levers to improve health sector planning and performance; e.g. the ministry of health or local government can reward or sanction provider management or initiate provider rationalization to ensure availability in remote areas or invest in provider development.</p>
<p>6. Out-of-pocket expenditure plays a major role in funding individual health services, and the purchaser finances a limited percentage of costs.</p>	<p>May be easier for the purchaser to use selective contracting than for a single purchaser that will pool most funding for individual health care</p>

Challenges for strategic purchasing

Purchaser may face political opposition to selective contracting

Steward or purchaser may face political pressure to adjust prices to support public providers in a financial deficit, limiting the ability to contain cost

Purchaser may be unable to exert a budget constraint

Principal agent problem: without benchmarking, the steward must use other mechanisms to assess performance of purchaser (e.g. evaluation and monitoring).

Regulation required to ensure both competition and equity in coverage and access, e.g. through standardized benefits or transparency requirements

Regulation required to mitigate the possibility that private or highly autonomous purchasers will pursue profit or maintain a high surplus at the expense of objectives for the “common good” and to mitigate the impacts of very poor or failing purchasers on beneficiaries and providers (e.g. regulation of organizational form and capital requirements, organizational charters and board representation)

Coordinating mechanisms required among purchasers to strengthen their financial leverage over provider performance, e.g. aligning the incentives created by standardizing performance indicators, provider payment methods and clinical guidelines

Need for shared systems (e.g. common data repository, interoperability standards for IT systems) to reduce duplication of administrative and transactions costs.

Government or steward needs to align objectives, priorities and benefits package among purchasers and benchmark purchaser performance in order to achieve the government’s strategic purchasing objectives

Risk of soft budget constraint because the government cannot allow purchaser to fail. The government or stewards need to set a credible, multi-year budget based on a robust method for projecting future costs of funding benefits package with changes in demand or need, input costs and realistic efficiency targets

Coordination may be needed among purchasers to strengthen their financial leverage over provider performance, e.g. aligning the incentives created by standardizing performance indicators, provider payment methods, pricing, clinical guidelines

Duplication of administrative and transactions costs unless there are shared systems, e.g. common data repository, interoperability standards for IT systems.

Similar issues to option 3, and, in addition:

Clarification of boundaries and national–local coordination mechanisms may be needed to avoid shifting of cost and responsibility between national and local purchasers

Pooling of budgets and/or integrated payments for some patients or conditions may be needed (e.g. when patient care requires close coordination between services purchased nationally and locally).

Similar issues arise as in options 3 and 4, and in addition:

Coordination and alignment required between the government agency that provides supply-side financing and the purchaser to ensure alignment of priorities and coherent, effective incentives created for the purchaser

The combination of supply-side financing and purchaser payment may lead to softer budget constraints for public providers

Where the ministry of health owns some providers, it may have a conflict of interest with its stewardship role over health purchasing, as it could use its stewardship to influence contracting or pricing decisions to the advantage of its own providers.

In this setup, the purchaser’s benefit package is rather limited, and the package should be clear and simple for beneficiaries to understand their entitlements; public communication and monitoring of the boundary between the benefits package and privately financed services may need to be strengthened to prevent providers from diverting patients to private services, thus undermining the purchaser’s objectives

When this option is used because the purchaser’s prices cover only part of the costs of services, unless the purchaser can control “balance billing” and regulate co-payments, the purchaser will have limited ability to create incentives for the provider. In this context, strategic purchasing would be feasible only if supported by effective measures to limit the total price of the service (through competition for selective contracts plus contract enforcement, or price regulation)

Better-off people may buy supplementary or complementary voluntary health insurance, and a policy framework should be available to clarify the space for the VHI market to provide additional coverage.

In countries with multiple purchasers of individual health services, governance and other policy interventions to manage health care purchasing system as well as unified or inter-operable information management systems are even more important to lower risks of inequitable access to care, reduced financial leverage of any one purchaser over providers and overlapping or inefficient funding flows. In settings with multiple purchasers, several governance actors are often involved in purchasing policy. In decentralized settings, there may be additional governance arrangements for purchasing at subnational level.¹ Overall, this creates numerous power centres and accountability lines. For example, in the Lao People's Democratic Republic, before health financing system reforms in 2016, the Ministry of Health was responsible for managing the Health Equity Fund for the poor and overseeing community-based

health insurance for people working in the informal sector, while the Ministry of Labour and Social Welfare was responsible for policy-making for two separate social security schemes for employees in the formal sector (15). Thus, the governance function is particularly critical, and at the same time more difficult, in a fragmented health financing system. In many countries, the ministry of health has several functions and roles, being in charge of governance, purchasing and provision. This can create internal tension and even conflicts of interest within the ministry and/or its agencies. Box 2 outlines in detail the potential risks and effects of multiple health care purchasers, which a single purchasing system would not suffer from. A conducive regulatory environment and strong capacity in undertaking the core governance tasks, as outlined above, can at least partly mitigate these risks.

Box 2. Potential risks and effects of multiple health care purchasers

- **Shifting of cost or responsibility** among funders and purchasers and under-investment: For example, costs may be shifted between hospitals and social care for patients with longer-term needs, or additional demand may be created for individual services covered by the health purchaser if there is underinvestment in preventive population health services.
- **Spill-over effects from voluntary health insurance:** Complementary voluntary insurance or co-payments in primary health care services lead to greater use of services covered by the purchaser, making gate-keeping, expenditure control and achieving equity objectives more difficult. Alternatively, supplementary voluntary health insurance that offers a wider choice of private providers might create perverse incentives for doctors who have dual public and private practices. For example, these doctors may be unwilling to support initiatives to reduce waiting times for public services covered by the single purchaser if this would reduce their income from private practice.
- **Perverse incentives across the boundary between government-funded services and services funded from voluntary (typically private) payments.** When benefits are limited, for example, providers may have an incentive to claim that a service is outside the purchaser's benefit package, so that they increase profits by evading the clinical guidelines and billing rules established by the purchaser, thus engaging in balance billing, which also reduces financial protection. This may be more frequent when beneficiaries are not well informed of their entitlements.

¹ More information on health systems organization in decentralized settings is available on the WHO website (<http://www.who.int/health-laws/topics/governance-decentralisation/en/>).

Box 2. (cont.)

- **Diluted accountability:** Accountability for population health outcomes and health system performance may be diluted when multiple actors and purchasers are responsible for contributing to the same outcomes.
- **Incoherent incentives to providers:** Multiple purchasers might not provide coherent incentives to providers to improve efficiency and performance. For example, a change to case-based payment by public funding for hospitals to encourage greater efficiency in secondary-level care could be undermined by continuation of fee-for-service payments to these providers from voluntary health insurance or out-of-pocket payments, complicating implementation of an overall strategy for shaping the provider market.

2.3 GOVERNANCE OF A PURCHASING AGENCY TO MAKE IT OPERATE STRATEGICALLY

There are a number of governance requirements that are specifically geared to direct a purchaser operate strategically, i.e. to use levers to create an environment that enhances efficiency and quality in health care service delivery by providers.

Deficits in governance arrangements, however, are likely to make effective strategic purchasing difficult. The main governance requirements are listed in

Box 3. While the framework is not limited to mandatory health insurance, these governance requirements at agency level are applicable more directly to separate purchasing agencies. Nonetheless, the principles underlying these governance requirements are equally relevant for any government purchaser, including a central ministry of health or provincial health authority.

Box 3. Governance requirements for strategic purchasing at the agency level

1. Clear and consistent rules for decision-making on purchasing for ministries of health, oversight bodies and purchasers
2. Public interest mandate and clear objectives to give the purchaser a strategic direction and to act strategically
3. Sufficient autonomy and authority for purchaser to act strategically in order to meet objectives, commensurate with their capacity
4. Effective oversight
5. Inclusive, meaningful stakeholder participation
6. Coherence in multiple accountability lines to support transparency
7. Firm and credible budget constraint
8. Selection of the head of the purchasing agency based on appropriate skills and performance incentives to guide operations
9. Compliance with rules for the management and control of funds by the purchaser

1. Clear and consistent rules for policy-makers, oversight bodies and purchasers on making decisions in strategic purchasing

Decision-making authority on key purchasing tasks should be clearly defined and distributed among various actors to avoid overlaps, inconsistencies or even conflicting decisions. Purchasing related decisions range from setting overall objectives to more specific decisions on

provider payment rates, contracting or linking payments to accreditation criteria. Moreover, the division of labour needs to be set up in a way to be conducive to moving towards more strategic purchasing. Policy-makers and governance actors may include the legislature, the cabinet

of ministers, the prime minister or president and, in particular, the minister and the ministries of health, labour or social affairs and finance, the oversight body, other regulators and the purchaser. A clear division of labour among these

actors will establish credible responsibility for decisions taken. A health law, health insurance law or secondary legislation often includes the specific responsibilities, accountability and mandate of each actor.

2. Public interest mandate and clear objectives to give strategic direction

A clear legislative mandate and formally defined objectives for the purchasing agency are the foundations on which other elements of governance – particularly accountability and transparency – are built.

The legislative or regulatory mandate of a strategic purchaser should make clear that it has a duty to act in the public interest, to be defined by policies and legal provisions. Its objectives should encompass a balanced set of financial and non-financial strategic

objectives, to be pursued with all the levers available to the purchaser. One of the core functions of the purchaser's governance body is to set the strategic direction, with specific objectives and priorities aligned with the broader health strategy of the government or steward, and to update these periodically. Achievement of these objectives should be monitored (see point 4).

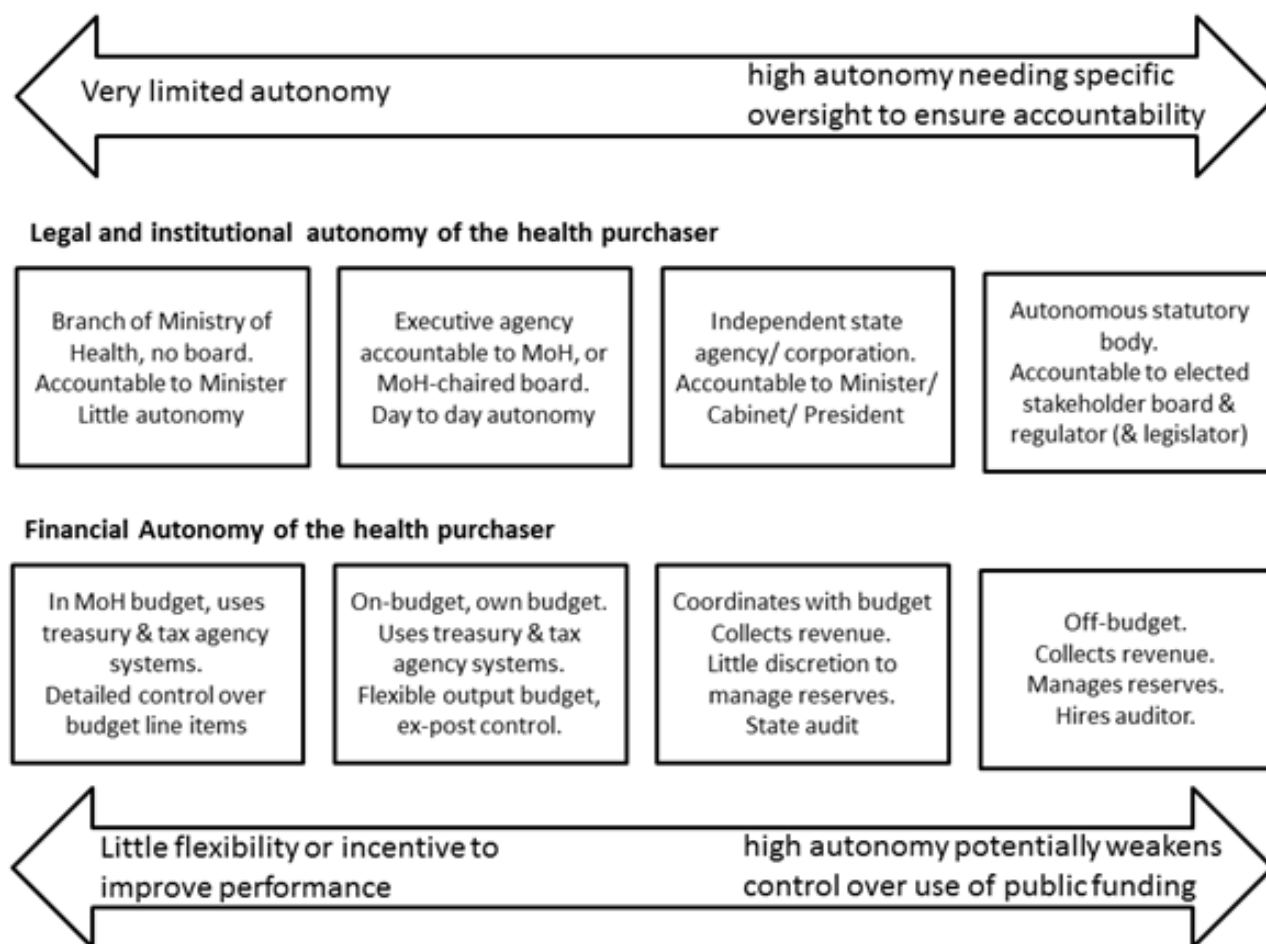
3. Sufficient autonomy and authority to meet objectives, commensurate with capacity

A strategic purchaser should have sufficient flexibility and autonomy within broader policy parameters to use all the available purchasing levers in order to achieve its objectives as best as possible.

Depending on the context, the flexibility allowed by the legislation and regulation governing the purchaser should include discretion space to determine the detailed specifications of benefits and service, to use some prioritization and rationing tools, and to influence if not develop clinical guidelines for the services it pays for. It should have the autonomy to design or refine payment mechanisms in order to share risk appropriately with providers, incentivize better performance of providers and use various contracting strategies,

depending on the nature of the provider market for different services, populations and localities. The PFM regulations applying to a ministry of health often do not allow for such flexibility, which has led to a trend of creating autonomous purchasing agencies. Additional autonomy should nevertheless be accompanied by appropriate oversight and sufficient capacity to fulfil mandates (see below). Fig. 1 outlines the degrees of purchaser autonomy and related features. Various countries may have a purchasing setup that does not fit exactly into one of these boxes, especially when purchasing responsibilities and decision rights are divided between the ministry of health and a separate purchasing agency.

Fig. 1. Different degrees of purchaser autonomy



Adapted from Hawkins (16)

The extent to which a purchaser can use its autonomy also depends on its authority and capacity to enforce contracts and regulations and to have leverage over providers. For example, the purchaser must be able to ensure that providers deliver safe, high-quality health services and adhere to the provider payment schedule, including patient co-payments, and to control and enforce it through sanctions. The purchaser must also have necessary authority to audit and control over-billing (e.g. “up-coding”) and over-provision.

Factors such as provider competition and patient choice “within the market” for patients further affect the extent to which a purchaser can use its autonomy

and authority. For services with less scope for competition or if the purchaser wants providers to form groups or networks or to invest and develop, the purchaser should have the authority and capacity to use selective contracting. Where services are a natural monopoly, this may take the form of competition “for the market” through procurement processes for long-term contracts or franchise agreements to provide specified services to a given patient population. These forms of flexibility and autonomy enable the purchaser to innovate and create incentives for improving service delivery and outcomes while continuing to maintain financial sustainability under its projected revenue or budget constraint.

4. Effective expert oversight to ensure accountability and to balance increased autonomy

The autonomy and flexibility given to the strategic purchaser need to be accompanied by mechanisms for accountability. An important governance arrangement for realizing this are oversight actors or an oversight body. These will have to ensure compliance with purchasing and accounting rules and, even more, have to hold the purchaser accountable for achieving an appropriate balance among the multiple objectives set by the government and potentially further specified by the board. Oversight bodies ideally focus on ex-ante approval of strategic plans and policies and set broad priorities, with more detailed scrutiny of performance ex-post. Likewise, they should set performance indicators for multiple dimensions, including financial management, member satisfaction and public health objectives, and review

actual performance. An effective oversight body of a strategic purchaser should have autonomy and authority as well as technical capacity and, in particular, strong expertise in finance and risk management, health financing and health sector performance.

Elected representatives of stakeholders may not have the necessary skills. Measures should be in place to ensure that the members of an oversight body have access to the expertise they need. Inviting external experts, organizing consultations, mandating the ministry of health or the purchasing agency to fulfil secretarial functions or formally including experts in the board are some options. Additionally or alternatively, external, independent expert oversight or review may be mandated for some decisions delegated to the purchaser.

5. Inclusive, meaningful stakeholder participation in purchasing decisions for balancing views and interests

Oversight bodies should have broad stakeholder representation to ensure inclusive participation and meaningful influence and balancing of the full range of views and interests of stakeholders. In particular in health insurance systems, oversight bodies should go beyond the traditional tripartite representation of government, employers and employees, because the tripartite representation does not cover all perspectives. Other important stakeholders include patients, specific patient groups, beneficiaries, citizens, doctors and nurse associations and other organizations representing staff interests. Professional societies, (public and private), hospital associations, the voluntary health insurance sector, the pharmaceuticals

and medical devices industries and local governments and their associations should also have opportunities to share their views.

Alternatively, policy-makers may use other mechanisms to ensure stakeholder input to key decisions delegated to the purchaser, such as formal consultations on draft policy proposals and strategies, public meetings, opinion research, stakeholder representation on advisory committees or the right to submit proposals by certain groups, which must be considered by the board.

Given the complex technical nature of the underpinnings of some strategic

purchaser policies, lay people may find it difficult to provide meaningful input and to express themselves in such hearings and consultations, unless they are supported by accessible information and independent expertise. Combining independent

expertise with stakeholder representation on advisory committees may help to address this challenge and ensure that people's needs, preferences and concerns are considered.

6. Coherent lines of accountability to support transparency

In addition to the specific oversight mechanism, other lines of accountability may be in place. These multiple lines need to be coherent and effective to ensure the functioning of the purchaser and to create transparency on purchaser performance, activities and spending as well as on their impacts. For example, the purchaser may be accountable and report not only to its oversight body but also to the oversight ministry, the ministry of finance, parliament or other committees in charge of scrutinizing the use of public funds, or to another regulator. For coherence, the aspect for which the purchaser is accountable to each of these actors should be clearly defined.

Other accountability mechanisms include publishing annual reports, putting in place mechanisms for arbitration and complaints or appeal and responding to inquiries. As public agencies or agencies that receive public funding, they would also be required to undergo internal and external audits. In sum, adequate levels of transparency and strong ex-post audit are needed to ensure that the purchaser does not misuse its flexibility and delegated autonomy with wasteful or inappropriate expenditure, e.g. on its own administrative budgets or staff salaries.

7. Firm and credible budget to meet contractual obligations

A strategic purchaser needs a reasonably stable and predictable medium-term financing trajectory to bring about improvement in performance. Strategic purchasing requires sustained multi-year action, e.g. through multi-year contracting, multi-year predictability in provider payment or by creating a reserve fund. Unpredictable changes in financing from year to year or bottlenecks in budget execution risk putting the purchaser in breach of its contractual commitments.

The purchaser's budget constraint should be credible and consistent with expenditure commitments built into the

benefits package and other purchasing policies. If the purchaser is established, with a structural deficit due to mismatch between commitments and budget constraint, it would not be realistic to hold the purchaser accountable. At the same time, the government has to ensure that adequate resources are mobilized for the benefit entitlements of all beneficiaries to be met. The budget constraint should also be firm: the purchaser should not be allowed to breach its budget constraint with impunity, in expectation that the government will fund any shortfall.

8. Selection of the head of the purchasing agency based on appropriate skills and performance incentives to guide operations to effectively manage the agency

Ideally, the head of a purchasing agency (e.g. the chief executive officer, director or president of a health insurance agency) should be selected competitively and transparently on the basis of relevant skills and experience. This serves to ensure that the person appointed has the necessary competencies. The post requires adequate remuneration and reputational and career path rewards to ensure that qualified candidates are interested. Performance incentives can be added to encourage the agency head to perform her or his role conscientiously, comply with the rules and meet objectives effectively.

The same criteria apply to the staff of the purchasing agency. An autonomous purchaser may have more flexibility to recruit staff with the necessary skills mix, while a government agency might be limited by national staff quotas. Specific expertise may be available only at salaries that are above the civil servant salary scale. Appropriate remuneration and responsibilities are also important to avoid high staff turnover, which can affect the functioning of the purchaser.

9. Compliance with rules for the proper use of funds

Most countries have regulations on the management and control of public funds, the financial management and control of public or semi-public agencies or rules that apply to insurance agencies. These can be translated into internal regulations and procedures to control the execution of the budget (including contracting, invoice or claims verification, payment, procurement for purchaser operations), accounting, personnel decisions, and control of fraud and corruption. Such compliance rules, together with internal audit or financial control departments within the organization, serve to ensure that staff do not abuse their positions or take unauthorized decisions inconsistent

with policy and strategy. Internal control mechanisms should also avoid excessive administrative costs. Internal audit is an additional mechanism for checking whether rules are being adhered to, with the objective of constituting a credible threat against fraud or theft of resources by staff or nepotism in hiring. In addition, a purchaser who manages public funds will be held accountable by the State financial inspection agency, which is expected to conduct regular external audits.

Table 2 lists indications for effective governance and provides examples of potential deficits in those governance requirements and their effects.

Table 2. Governance requirements for a purchasing agency

Governance requirement	Indications of effective governance
<p>1. Clear, consistent rules for policy-makers, the oversight body and the purchaser(s) on making decisions about strategic purchasing</p>	<p>There is an overall coordination mechanism and regular exchange among actors. The actors have the institutional and technical capacity to fulfil their mandates. Decision-making rules and processes serve to resolve conflicts and reach a consensus on the purchaser’s strategies and decisions and those of the ministry of health (and wider government) regarding the health sector and public finances. Mechanisms and processes are in place to coordinate the setting of the ministry of health’s strategy and the purchaser’s strategies. Mechanisms and processes are in place for coordination between the government’s budgeting and planning and those of the purchaser.</p>
<p>2. Public interest mandate and clear objectives</p>	<p>Clear legal provisions are in place to give the purchaser a mandate to be a strategic purchaser. The purchaser has clearly defined objectives, with a balance among these objectives, such as financial protection, access, improved health outcomes, improved quality of health care, equity, efficient use of resources, financial sustainability of the system. The legal framework for purchasing and the objectives of the purchaser have remained substantially the same over periods of 3-5 year or more.</p>
<p>3. Sufficient autonomy and authority to achieve objectives, commensurate with capacity</p>	<p>The purchaser has enough authority or influence over decisions on service specifications, provider payment mechanisms and prices to manage its financial risks and to innovate to improve its non-financial objectives (access, health, equity, health care quality, efficiency of the system). The share of revenue that providers receive from the purchaser is large or marginal enough to incentivize the provider. National procurement law and other legal provisions regulations clearly allow the purchaser to use a range of payment methods and procurement mechanisms methods, while ensuring transparent, objective selection. Legal provisions or regulations allow the purchaser to monitor contracts regularly, to follow up non-performance or fraud and to use legal sanctions when necessary. In a setup where the purchaser manages its funds outside the treasury system, it is also able to operate with the necessary flexibility and can hold adequate reserves to manage in-year financial risks of variation in demand.</p>
<p>4. Effective oversight and accountability mechanisms to balance increased autonomy</p>	<p>The oversight bodies have sufficient autonomy, authority and capacity to fulfil their mandate. The processes and criteria for appointing the oversight body ensure that it has adequate competence to oversee purchaser performance with respect to both financial and non-financial objectives. There are requirements for disclosure of interests by the members of the oversight body or regulator and the head of the purchaser (e.g. declarations of business ownership or activities, receipt of benefits from industry and financial positions) and documented procedures for handling conflicts of interest. Clear rules exist on compliance, enforcement and sanctions for ensuring control of the purchaser. Financial rules, reserve and solvency or balanced-budget requirements, rules on assets and investment, internal and external audit requirements are defined clearly in legal acts. Clear rules require the purchaser to assess and manage its main risks, e.g. regular tracking, analysis and projections of expenditure and revenues; cost-benefit analysis, cost-effectiveness analysis and affordability analysis of changes to benefits package and service specifications and other new regulations.</p>

Examples of governance deficits and effects

Unclear division of authority between the minister or ministry of health, the oversight body and the purchaser for making decisions, leading to conflicts or bottlenecks or unclear or incoherent decisions, e.g. on benefits package, provider payment policies or contracting strategy.

The purchaser lacks a clear mandate to purchase strategically: e.g. its mandate is narrowly focused on financial functions, reimbursement of a detailed list of benefits and not on strategic goals such as improving health outcomes and health system performance within the budget or equitable access.

There are no or vaguely defined objectives.

The purchaser has discretion to pursue goals and priorities inconsistent with the government strategy, with little influence from the ministry of health or government.

The objectives are conflicting, for example the benefits and service commitments may exceed the revenue or budget of the purchaser.

The purchaser lacks sufficient autonomy to act strategically and influence the health system to meet its objectives. For example, if the ministry of health or finance takes almost all decisions on the benefit package, provider payments, price-setting and contracting strategy, the purchaser will have little autonomy to manage its expenditure within the budget.

The purchaser is bound by rigid public financial management rules, which limit its use of output- or performance-based payment methods or the ability of efficient procurement of services.

The purchaser has the autonomy to take decisions about payment methods and service specification but does not have the flexibility to hire the necessary number of staff or with the necessary skills to do so.

High reliance of providers on out-of-pocket payment or voluntary health insurance spending limits the ability of the purchaser to influence provider behaviour.

In the absence of regulation of private (and public) providers, the purchaser does not have access to legal mechanisms for addressing fraud.

The purchaser does not have the right, means or capacity to monitor balance-billing and informal payments.

The purchaser has to use budget and treasury management systems, which are not flexible enough to allow output and performance-based payment or in-year adjustment to budgets.

An independent, multi-stakeholder oversight body is in place, but it lacks resources, expertise and capacity to fulfil its functions effectively, is too weak (politically or economically) to act as an effective counterweight to the purchaser, or does not follow up or demand action from the head of the agency if the purchaser fails to meet its objectives.

The oversight body is not representative of the interests of beneficiaries; at worst, there are conflicts of interest or the oversight body is "captured" by provider interests or the interests of purchaser staff or some other non-representative group.

Representatives on the oversight board are not accountable to the constituencies they represent.

The oversight arrangement is not aligned with the mandate and objectives given to the purchaser, e.g. too strict control, insufficient autonomy.

The oversight body or regulator does not have access to information for monitoring performance, alignment with objectives, compliance with rules and regulations or administrative costs of the purchaser.

Table 2. (cont.)

Governance requirement	Indications of effective governance
<p>5. Inclusive, meaningful stakeholder participation</p>	<p>Procedures and criteria for selecting representatives and stakeholders in the purchaser’s governance and advisory processes ensure participation of a broad base of patient, consumer and citizen groups, when possible, and a balanced group of interests, mitigating the risk of “capture” by a provider or industry or undue influence of special interests.</p> <p>Legal acts or documented procedures require the purchaser to consider and analyse the impact on stakeholders and consult them before making decisions.</p> <p>Procedures require the purchaser to publish the views of stakeholders (e.g. from surveys or formal consultations) and explain its decisions and responses to concerns raised.</p>
<p>6. Coherent and effective accountability lines</p>	<p>The mandate of the purchaser clearly states how often, to whom and which information should be reported.</p> <p>If there are multiple lines of accountability, it is clear which oversight agency is in charge of which aspect (e.g. ministry of finance for financial management, ministry of health for achieving public health objectives), and the decisions or requirements of oversight agencies are not contradictory.</p>
<p>7. Firm, credible budget (constraint)</p>	<p>The government has a medium-term budget framework for health, with a credible budget constraint relative to the cost of the benefits package and service specification and projected demand for and cost of services.</p> <p>There are provisions for regular updating of forecasts of entitlements within the benefit package and measures to reconcile the cost of meeting entitlements with the budget.</p> <p>The purchaser can forecast its revenue stream over multi-year periods and obtain approval for changes in contribution rates or other revenue sources or changes in the benefits package to reconcile projected costs and projected revenue.</p>
<p>8. Selection of the head of the purchasing agency based on skills and performance incentives</p>	<p>The head of the purchasing agency is recruited and appointed according to an open, transparent selection process based on relevant skills and experience.</p> <p>The purchaser is able to hire the staff it requires, with the right skills and through competitive recruitment.</p>
<p>9. Compliance rules that oblige the purchaser to ensure adequate control of use of funds.</p>	<p>Regulations control the entire budget execution (including contracting, invoice or claims verification and control, payment, procurement for purchaser operations), accounting, personnel decisions and control of fraud and corruption.</p>

Examples of governance deficits and effects

Beneficiaries do not have a formal complaints or redress mechanism.

There is no cost-effective procedure for dispute resolution or for resolving conflicts between the purchaser and providers on contracting and payment.

Beneficiaries are represented in the supervisory body but do not have access to relevant information or to analyses that are readily accessible to laypeople.

Lack of transparency (e.g. the purchaser does not publish its policies, strategy, plans, accounts or reports).

Lack of independent audit to ensure the reliability of data produced by the purchaser (e.g. financial data, contracting or service coverage data, population coverage data) leads to lack of transparency, even if accountability lines are clear;

A soft budget constraint can lead to purchaser deficits or delayed payment of providers.

A non-credible budget constraint can lead to a structural deficit and a risk of arbitrary or unfair sanctions on purchaser management.

The purchaser cannot accumulate or access appropriate reserves to finance short-term variation in the revenue collected and/or the cost of the benefit package as compared with forecasts.

There is no limit on the administrative costs of the purchaser; as a result, it imposes an excessive administrative burden on providers.

There is inappropriate political intervention in the appointment.

The remuneration offered for the head and technical staff is inadequate to attract and retain competent people.

There are no reputational or career path rewards.

Bonuses are paid according to the financial situation of the health insurance fund, creating an incentive to keep excessive reserves.

There are no compliance regulations in place.

There is no internal audit.

There are no checks and balances, resulting in loopholes for fraud or theft of resources.

There are no sanctions for nepotism in hiring.

There are rules, but the organizations that are supposed to enforce them have insufficient capacity or autonomy.

2.4 FACTORS CONDUCTIVE TO EFFECTIVE GOVERNANCE FOR STRATEGIC PURCHASING

There are several factors that are conducive to effective governance for strategic purchasing. These relate to the realm of management of both the purchasing actors

and governance actors. These factors are critical for the governance of the health care purchasing system and for the agency.²

Good data to inform strategic planning and operations at both scheme and system level

A wide range of data is needed for strategic planning and for shaping the health care purchasing system. In particular, this informs resource allocation (e.g. for more complex risk-adjusted or needs-weighted formulae), contracting (e.g. for risk-sharing or for monitoring more complex service

specifications and standards), provider payment (e.g. for development of more complex case-mix tools or for quality-related payments), risk analysis and management. It is important that these data be robust, validated and timely.

Effective information management system to handle governance and purchasing tasks

The strategic purchaser's information systems must be able to handle complex payment methods, contract administration, performance monitoring and risk management. For example, the purchaser will have to use automated methods to identify fraud and unjustified variation in the invoice data they receive from providers. Purchasers also require the capacity to use the information system and act on the information they obtain. The purchaser will also need data management and software for advanced data analysis to support some of the strategic purchasing functions, including actuarial analysis,

analysis of variation in claims and in-service provision and review and evaluation.

The governance of the health care purchasing system requires a system-wide oriented information system that should ideally be interoperable to provide the data required by governance actors for taking informed system-wide decisions. Standardization of information systems requires a steward developing a common standard. This might be done by an agency outside the health sector that is in charge of collecting statistics and developing information technology.

Managerial capacity and leadership of governance and purchasing actors

Purchasing of health services is very complex. Skilled and effective management is important for the governance actors to have sufficient capacity and expertise to contribute to shaping the health care purchasing system in a meaningful and effective way.

At the level of the purchaser, managers and staff must have diverse and high-level capacity to undertake strategic purchasing in various areas, including financial management, risk analysis and management, analytical skills (e.g., economics, statistics, epidemiology),

² Some of these aspects are also covered in section 3, in the assessments of governance of the health care purchasing system and of the agency.

performance measurement, data management, information systems, contracting and depth of knowledge of health service delivery. High capacity on its own does not, however, guarantee that the purchaser will act strategically. The purchaser management should have strong leadership skills so that the purchaser can set direction and motivate staff in the organization and also tackle external challenges and system constraints energetically. Leadership skills might be evident in the previous career path that has involved leading a large organization

through significant challenges and processes of change, in a strong reputation and a high profile within the health sector, and in the ability to communicate effectively in national media, to health sector stakeholders and to staff.

Country experience suggests that the capacity of the ministry of health and its related governance arrangements should be aligned with the operational capacities of other stakeholders involved in purchasing, in particular those of the ministry of finance (16).

Effective relations among governance actors, purchasing agencies and other stakeholders

Strategic purchasing involves various actors, with a variety of interests and opinions. The actors in charge of the governance of the health care purchasing system must balance the different interests and engage with all stakeholders to convince potential opponents to support its proposed policy and to explain the rationale for any policy changes required to move towards more strategic purchasing. The head of the purchasing agency or its divisions must manage relations with providers, regulatory bodies, members and the general public.

These groups might support or resist changes in favour of strategic purchasing, depending on their interests and whether they perceive it as advantageous to them or not. Both the governance actors and purchasers must be able to manage these aspects of political economy. The aim is to promote shared understanding of strategic purchasing among all groups in order to develop constructive relationships, align interests and clarify the role of each group in strategic purchasing.

3. GOVERNANCE FOR STRATEGIC PURCHASING: COUNTRY ASSESSMENT FRAMEWORK

STEP 1. ANALYSIS OF THE GENERAL GOVERNANCE CONTEXT AND THE HEALTH FINANCING SYSTEM

The aim of this section is to understand the broader country context that shapes the scope for governance of the purchasing function.

1) Provide a brief summary of the broader political governance, (socio-)economic and fiscal context in which the health purchaser(s) operate and highlight how these affect purchasers.

To assess the strengths and challenges related to broader political governance of the health sector in your country, you can follow the TAPIC framework (17):

Transparency: Are the operation of public institutions and their decisions made public? Is there a law on access to information?

Accountability: Do institutions have to justify their performance? Can they be “forced” to comply with regulations?

Participation: Are civil society and the private sector represented or consulted in policy-making?

Integrity: Are there measures to avoid conflicts of interest, corruption or patronage?

Capacity: Is there sufficient capacity for policy-making and for effective management of public services?

To summarize the (socio-)economic and fiscal context, list the indicators in Table 3 and/or include a short paragraph on the overall (socio-)economic and fiscal context for health.

Table 3. Key (socio-)economic, health and health expenditure indicators

Indicator	Year 1	Year 2	Year 3	Year 4
Population				
Gross domestic product per capita (GPD p.c.)				
Poverty head count ratio at national and/or international poverty line (% of population)				
General government expenditure as percentage of gross domestic product (GGE/GDP)				
Current health expenditure as percentage of gross domestic product (CHE/GDP)				
General government domestic health expenditure as percentage of current health expenditure (GGHE/CHE)				
External health expenditure as percentage of current health expenditure (EXT/CHE)				
General government domestic health expenditure as percentage of general government expenditure (GGHE/GGE)				
Out-of-pocket payments as percentage of current health expenditure (OOP/CHE)				
Life expectancy at birth (years)				
Mortality rate of children under 5 years (per 1000 live births)				

Data would be available from national statistical offices and/or the Global Health Expenditure Database and the World Development Indicators (<http://databank.worldbank.org/data/reports.aspx?source=world-development-in>).

2) Map the main purchasers and providers, and outline their core features, using Table 4.

Columns may be added for other health financing schemes (e.g. government-funded health coverage scheme or compulsory private insurance), additional rows may be added to disaggregate responses as relevant; columns or rows that are not relevant in your country may be removed.

Recent reforms in the purchasing function should also be considered in this overview. Annex 1 provides examples of purchasing-related reforms that countries may undertake.

Table 4. Mapping of main purchasers and providers

	Ministry of health and attached agencies (specify)	Other central ministries (specify)	Subnational government (disaggregated by level if relevant)	National health insurance (or mandatory health insurance for defined population groups) ^a	Voluntary health insurance (complementary and/or supplementary)	Community-based health insurance (and other local financial protection schemes)
Sources of finance, e.g. general taxation, earmarked taxes, local taxes, compulsory contributions, rest of world						
Population covered and (as a share of the total population)						
Services covered, e.g. inpatient, outpatient, care, medicines, preventive, promotive						
In each column: Are these single or multiple purchasers?	NA					
If multiple purchasers, are they competing?	NA					
Types of providers from whom services are purchased						
Per capita expenditure by this purchaser						

NA, not applicable

Source: Strategic Purchasing Collectivity Group (18)

^a This also refers to territorial health insurance funds or health insurance funds for specific population groups (e.g. funds for civil servants, military and particular industries).

Overall assessment:

- Is the broad political and governance context supportive of effective governance of the health financing system and the health care purchasing agency?
- What are the key issues in the economic and fiscal context that affect governance of the health financing system and of the purchasing function in particular?

STEP 2. ASSESSMENT OF THE GOVERNANCE OF THE HEALTH CARE PURCHASING SYSTEM

3) Assess the type of the health care purchasing system in Table 5 and identify any opportunities and challenges this creates for making purchasing more strategic.

The health care purchasing system in your country might correspond to one of the patterns below or be a combination of several. Choose the lines that are relevant for your context. Table 1 may provide guidance.

Table 5. Assessment of the type of the health care purchasing system and opportunities and challenges for strategic purchasing

Types of organization of the health care purchasing system	Opportunities for strategic purchasing	Challenges for strategic purchasing
1. Single national purchaser of most individual health services (e.g. Estonia, Slovenia)		
2. Competing purchasers, open to all beneficiaries (e.g. Israel, Netherlands)		
3. Non-competing purchasers cover different population groups (e.g. Thailand)		
4. Combination of national and local purchasing (e.g. Austria, England)		
5. Supply-side financing plays a major role in funding individual health services; the purchaser finances a limited share of costs (e.g. Philippines: purchasing from public providers).		
6. Out-of-pocket expenditure plays a major role in funding individual health services; the public purchaser finances a limited share of costs (e.g. Philippines: purchasing from private providers).		

4) Explore by whom and how well the tasks of governance of the health care purchasing system are undertaken by using Table 6.

Box 1 on p.12 may provide further guidance.

Table 6. Assessment of governance tasks in relation to the health care purchasing system

Governance task	Who is in charge?	How well is this function undertaken? Do those responsible have the capacity (e.g. rules in place, resources and technical expertise available)?	What are the implications for moving towards more strategic purchasing?
Policy analysis and strategy development			
Managing dynamics and sequencing reforms			
Ensuring an integrated and interoperable information management is in place			
Coordination among and consultation with stakeholders to get their input			
Defining and managing a coherent division of labour and effective decision-making on purchasing			
Alignment with other health financing functions and other health system aspects			
Setting legal provisions on purchasing			
Alignment of benefit designs, provider payment methods and rates, including cost-sharing mechanisms among purchasers			
Alignment (“shaping”) of public financial management rules to create scope and space for strategic purchasing			
Specification of the role of voluntary health insurance and regulation of the voluntary health insurance market			
When necessary, establishing a functional regulatory agency			

Overall assessment:

- What are the core strengths, key issues and challenges in the governance of the health care purchasing system, and how do these enable or hinder strategic purchasing?
- Do fragmentation and lack of coordination and alignment in the health care purchasing system weaken the leverage of purchasers on health sector performance?
- What short- and long-term suggestions or recommendations for shaping the purchasing system would allow it to move towards more strategic purchasing?
- Can you identify champions to lead the process?

STEP 3. ASSESSMENT OF THE GOVERNANCE OF A PURCHASING AGENCY

- 5) Using Table 7, assess (i) whether the desired governance requirements for the purchasing agency are in place, (ii) the reasons for governance deficits and (iii) whether the existing governance arrangements foster or hinder strategic purchasing.

Table 2 also provides examples of conducive features and potential gaps.

Table 7. Assessment of governance aspects at purchaser level

Governance requirements and desirable features	Assess whether the respective relevant governance requirements are in place	What are the reasons for the deficits in the governance arrangements? (e.g. gaps in institutional or technical capacity?)	How do the existing governance arrangements foster or hinder strategic purchasing?
Legal provisions determine a clear and coherent division of labour and definition of decision-making authority for key purchasing aspects between the purchaser, ministry of health and other relevant parts of government.			
Both a public interest mandate and clear objectives for strategic direction are formalized in legal or regulatory provisions.			

Table 7. (cont.)

Governance requirements and desirable features	Assess whether the respective relevant governance requirements are in place	What are the reasons for the deficits in the governance arrangements? (e.g. gaps in institutional or technical capacity?)	How do the existing governance arrangements foster or hinder strategic purchasing?
The purchaser has sufficient autonomy and authority, commensurate with its capacity to achieve its objectives.			
An effective (expert) oversight body and mechanisms are in place to increase accountability for results and balance increased autonomy.			
There is inclusive, meaningful stakeholder participation, with checks on conflicts of interest.			
The multiple lines of accountability are coherent, allowing clear direction for the purchaser and clear attribution of responsibility.			
There is a firm, credible budget (constraint) in place, so that it has clear responsibility for balancing expenditure and revenue, with credible sanctions in case of breaches of the budget constraint.			
The head of the purchasing agency is selected on the basis of appropriate skills. There are performance incentives for the head and other relevant staff to guide operations.			
There are specific regulations in place on the management and control of public funds, financial management and control of public or semi-public agencies or rules that apply to insurance agencies, and these regulations are implemented.			

6) Use Table 8 to map the division in decision-making authority for purchasing.

Mark “x” against the organization with the respective decision-making authority on each line.

Table 8. Division of decision-making authority for purchasing aspects

Decision-making right on purchasing aspects:	Purchaser	Oversight body	Legislature (parliament)	Prime minister, cabinet, president	Ministry of health	Other (e.g. Ministry of finance, regulator)
Budget or contribution rates						
Benefits package						
List of reimbursable drugs						
Provider payment method						
Provider payment rates						
Contract development and award						
Quality standards and accreditation						
Contracting and selective contracting						
Clinical guidelines						
Beneficiary complaints and appeals						
Standardization of data collection						

Overall assessment:

- What are the key strengths, critical issues and challenges for governance of the purchasing agency?
- Do deficits in the governance requirements adversely affect the development of strategic purchasing, and, if so, how?
- Which strategic purchasing functions are most affected by these issues?
- What are the short- and long-term suggestions or recommendations for changing the governance of the purchasing agency to move towards more strategic purchasing? Could champions be identified to lead the process?

STEP 4. ASSESSMENT OF FACTORS CONDUCTIVE TO EFFECTIVE GOVERNANCE OF STRATEGIC PURCHASING

In this section, we assess the extent to which factors conducive to the governance of strategic purchasing are in place. The factors apply to governance of both the

overall health care purchasing system and of the purchasing agency. Therefore, separate assessments should be made for each level.

- 7) Assess how well the factors conducive to effective governance of strategic purchasing are established. Identify strengths and explore challenges and their underlying reasons.**
- 8) Describe any plans for improvement in these areas, including opportunities and expected challenges.**

Questions to consider for each factor are suggested below.

Availability of adequate data

- Do policy-makers, governance actors and purchasers have adequate data to undertake their tasks and fulfil their responsibilities?
E.g. data on population health needs; health coverage and financial protection of different population groups; population and cost coverage by voluntary health insurance
- In particular, do purchasers have adequate data on provider performance, diagnostic and treatment services provided, clinical quality and safety, patient satisfaction, clinical outcomes and the cost of service provision?
- Do purchasers have adequate data for developing and revising payment methods and rates?
E.g., data for needs-weighted or risk-adjusted capitation payment for primary care; patient-level information on the hospital visit or stay, including coded diagnostic and treatment information.

Information management system

- Do the reporting systems for purchasers respond to the needs of the policy-makers and governance actors of the health care purchasing system in terms of disaggregation, timeliness and completeness?
- Do the purchaser's information systems provide timely, complete and reliable information to support its activities related to contracting, provider payment, financial control, control of fraud and other operations?
- Is the information management system integrated or interoperable across all functions, including revenue collection, beneficiary registration, beneficiaries' benefits, payment of providers and monitoring of provider performance?
- Are the information systems of the ministry of health, other purchasers and providers interoperable?
- Is the purchaser using an automated system to review claims and make payments and to identify and control risks of fraud?

Managerial capacity and leadership

- Do the governance actors of the purchasing system have sufficient technical and institutional capacity and understanding to fulfil their roles?
 - What are the profiles of the chief executive and other members of the senior management team (career background, qualifications and experience)?
 - Does the purchaser assign staff to the functional areas necessary for strategic purchasing, such as planning, forecasting, resource allocation, evidence-based benefits package design, provider payment development, pricing, contracting, monitoring and analysing claims and health provider performance, risk analysis and risk management, programme review and evaluation?
 - Can the purchaser recruit and retain staff with specialized skills in areas such as financial management, economics, statistics, epidemiology, informatics, data management, health systems management and evaluation? Where are the key gaps?
 - What are the main barriers to building stronger capacity? Can the purchaser outsource or hire contractual staff to perform critical functions if it lacks sufficient staff or appropriate skills?
 - How is the senior management team recruited and selected?
- It is beyond the scope of a country assessment to make a detailed analysis of the functionality and capacity of the purchaser. The intention is to provide a rough assessment of whether capacity is a constraint to the functioning of the purchaser as a strategic organization and not just an administrative organization.

Conducive relations among governance actors, purchasers and other stakeholders

- With which main stakeholders must the governance actors of the health care purchasing system and the purchasers collaborate in order to fulfil their role?
- Do the governance actors and the purchasers have constructive relationships of trust with their stakeholders?

- Can the governance actors resolve or balance the conflicting and competing interests of multiple stakeholders? Do some stakeholder interests dominate, thus constraining the purchaser's ability to meet its objectives?
- Do stakeholders recognize when difficult decisions and trade-offs are necessary, and do they view the decision-making processes of the governance actors and purchasers as reasonable?

Overall assessment:

- What are the strengths in these four areas?
- To what extent do gaps in data or in information management systems, constraints in the capacity of the leadership and in managing stakeholder relations prevent the development of effective strategic purchasing? Which strategic purchasing functions are most affected by these issues?
- What are the short- and long-term suggestions or recommendations for strengthening data collection, information systems, capacity, leadership and management in order to move towards more strategic purchasing?
- Can champions to lead this process be identified?

STEP 5. SUMMARY OF KEY STRENGTHS AND CHALLENGES AND DEVELOPMENT OF OPTIONS AND RECOMMENDATIONS

9) Summarize the key strengths and challenges of the governance of the country's health purchaser(s) and health care purchasing system and how well its existing governance arrangements allow for strategic purchasing.

You can draw upon the "overall assessment" of Steps 1-4.

In this country assessment as a whole, what appear to be the most important barriers or enablers of governance for strategic purchasing in relation to:

- rational expenditure and efficient use of resources?
- meeting the objectives of financial protection, population health, access, equity, quality improvement, efficiency and financial sustainability?

10) Provide a list of recommendations and suggestions for short- and long-term action or further investigation to address these issues.

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ANNEX 1. EXAMPLES OF TYPES OF PURCHASING-RELATED REFORMS

- A country with an insurance system carried out a transition away from paying providers a “passive fee for service” to more active use of provider payment and contracting levers to achieve health system objectives, such as managing for financial sustainability; improving quality, efficiency, equity and value for money.
- A country moved from a fully integrated public delivery system with no purchaser–provider split to a tax-financed public purchasing agency.
- A health system moved from “passive” payment of providers by allocation of budgets based on the costs of their past inputs (including wages, other operating costs, pharmaceuticals, supplies, capital expenditure) to programme or global budgets.
- A country reduced financing through “supply-side subsidies” for input costs by covering the costs by an increase in the level of payments from the purchaser.
- In a situation with “supply-side financing” of public providers by the ministry of health or local government (e.g. for salaries and/or capital investment) with payments from a purchaser, the purchaser actively coordinated or aligned different funding flows for the provider to ensure that the incentives for providers were coherent and conducive to good health system performance.
- A country consolidated previously fragmented fund pools and purchasing agencies to designate a single purchaser or a more consolidated multi-purchaser system.



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