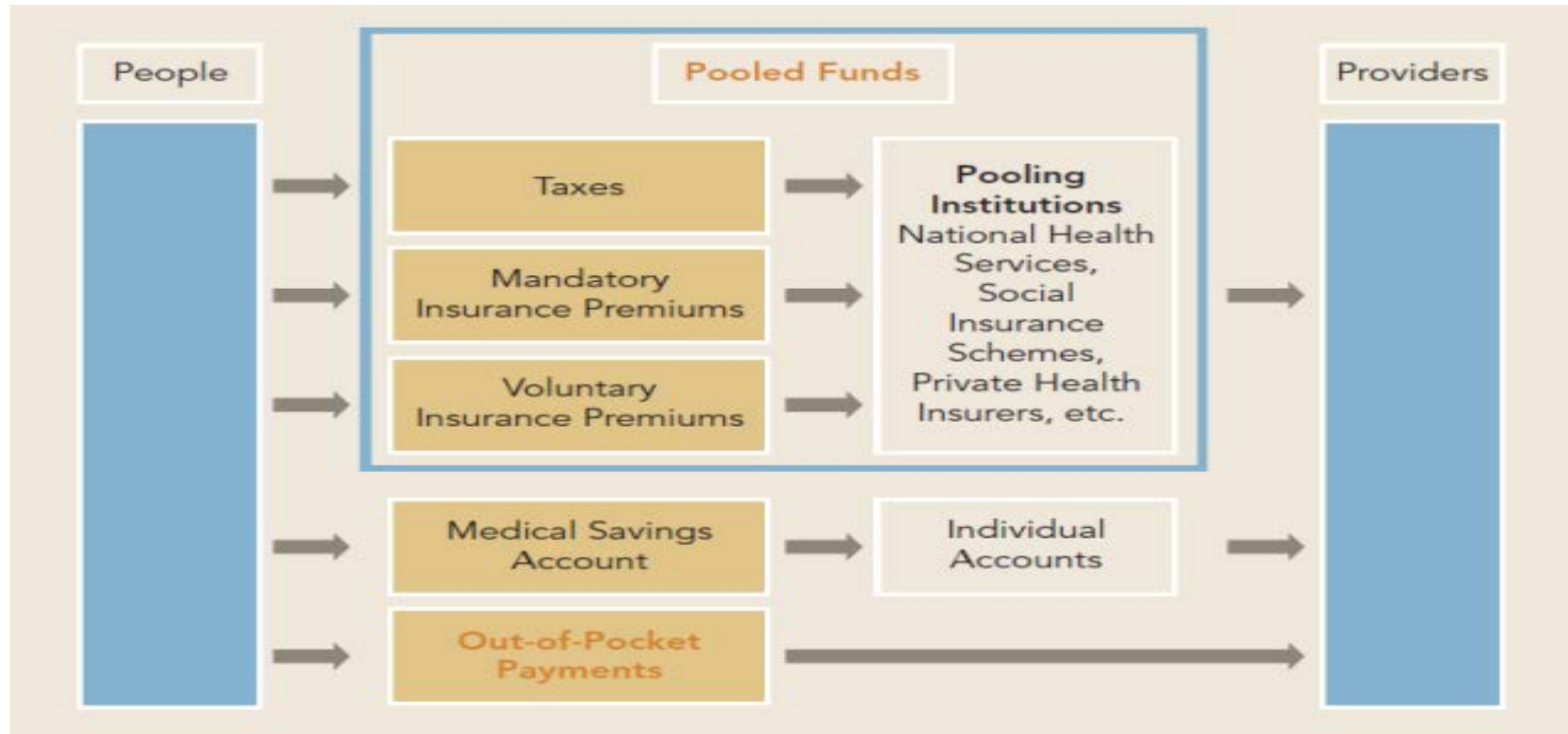


Purchasing

What is purchasing?

- Purchasing refers to the transfer, allocation of pooled resources to healthcare providers to obtain services on behalf of identified groups or the entire population and for which the funds were pooled. (*Kutzin 2001*)



Who are the purchasers?

- Ministry of Finance and Economic Planning
- Ministry of Health
- Social health Insurance fund(s): RSSB (ex-RAMA), MMI
- Private health Insurance fund(s)
- Community based health Insurance fund(s)

What to purchase?

- Services to which beneficiaries of the pooled resources are entitled = Benefit package/ entitlement
- Therefore there is a need of identifying the interventions or services to purchase

Who are the providers (from whom)?

- Health posts, health centers, district hospitals, provincial hospitals, referral hospitals
- Pharmacies, laboratories
- Private facilities
 - Clinics, hospitals, individual practitioners, single or multi-specialty group practices



How to purchase? (How are services purchased?)

There are two ways of purchasing:

- *Passive* purchasing implies following predetermined budget or simply paying bills when presented.
- *Strategic* purchasing involves a continuous search for best ways to maximize health system performance by deciding **which** interventions should be purchased, **how** and **from whom**.



Rationale for strategic purchasing

- Information asymmetries give providers influence over consumer demand for health care
- Incentives and regulations oriented towards the supply side of the market are one policy tool to address the issue.
- A critical factor for health care system performance is the extent to which purchasers link resource allocation decisions to provider performance and encouraging providers to pursue efficiency and quality in services delivery.

From passive to strategic purchasing

Passive

Limited information used to allocate funds and pay providers, e.g.

- Resource allocation using norms
- Little/no selectivity of providers
- Little/no quality monitoring
- Price and quality taker

Strategic

Deliberate decisions about what to buy, from whom to buy, and how to buy services:

- ✓ Clear service packages and service delivery standards
- ✓ Selective contracting
- ✓ Output-based payment systems that create deliberate **incentives**
- ✓ Provider autonomy
- ✓ Price and quality **maker**
- ✓ Manage overall costs in the system

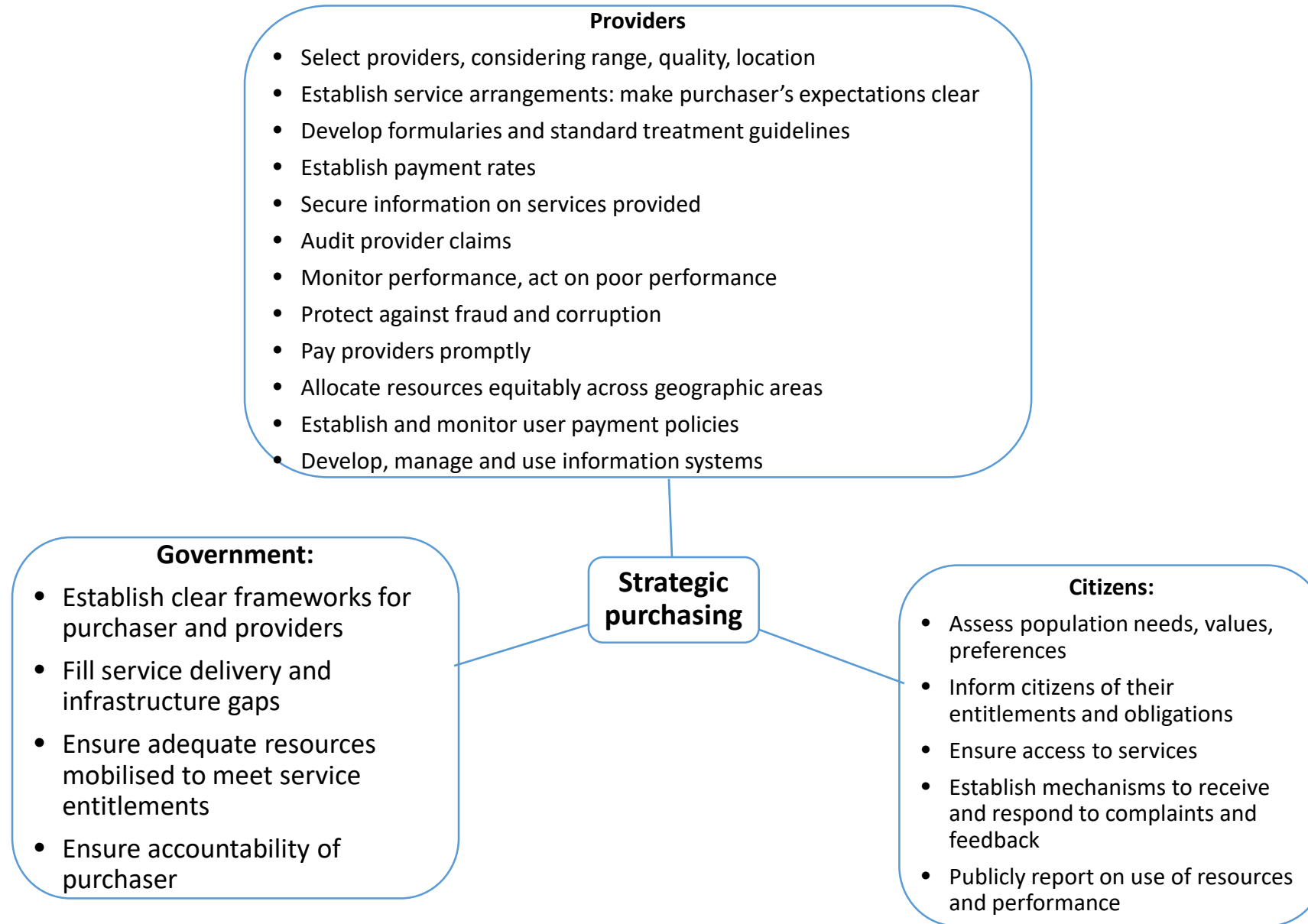


Strategic purchasing

- Which interventions?
 - Limited >< comprehensive range of services, cost-effective package or costly services.
 - Identify health needs of the population, understand their preferences and values.
- From whom?
 - Public providers and/or Private providers: Often involve an accreditation process
 - Encourage access to care at the lowest effective level (rationing mechanism)

Not always possible in geographic area where there is only one type of providers

Theoretically ideal strategic purchasing actions and scenario



Strategic purchasing

Purchasers can have considerable power, the government's responsibility is to ensure this power is not abused

Establish clear policy and regulatory frameworks within which purchasers and providers will operate (including regular reporting on the use of funds, services purchased etc. especially where public funds are used)

Strategic purchasing

- Would you support a system that purchases
 - A very vaguely defined benefit package or a wide package that is effectively not deliverable
- Would you support a system that purchases
 - Ineffective services, ineffective drugs
 - Inappropriate services
 - High volume of expensive diagnostic and curative services at the expense of cost-effective public health measures and low cost curative services
- Would you support a system that pays for services without information on need and effectiveness
- Most of our systems do the above to some extent!

Organizational structures & process in Strategic Purchasing

Institutional Arrangements

Who does what?

- ❖ Institutional roles & responsibilities

Operational Systems

How are purchasing functions carried out?

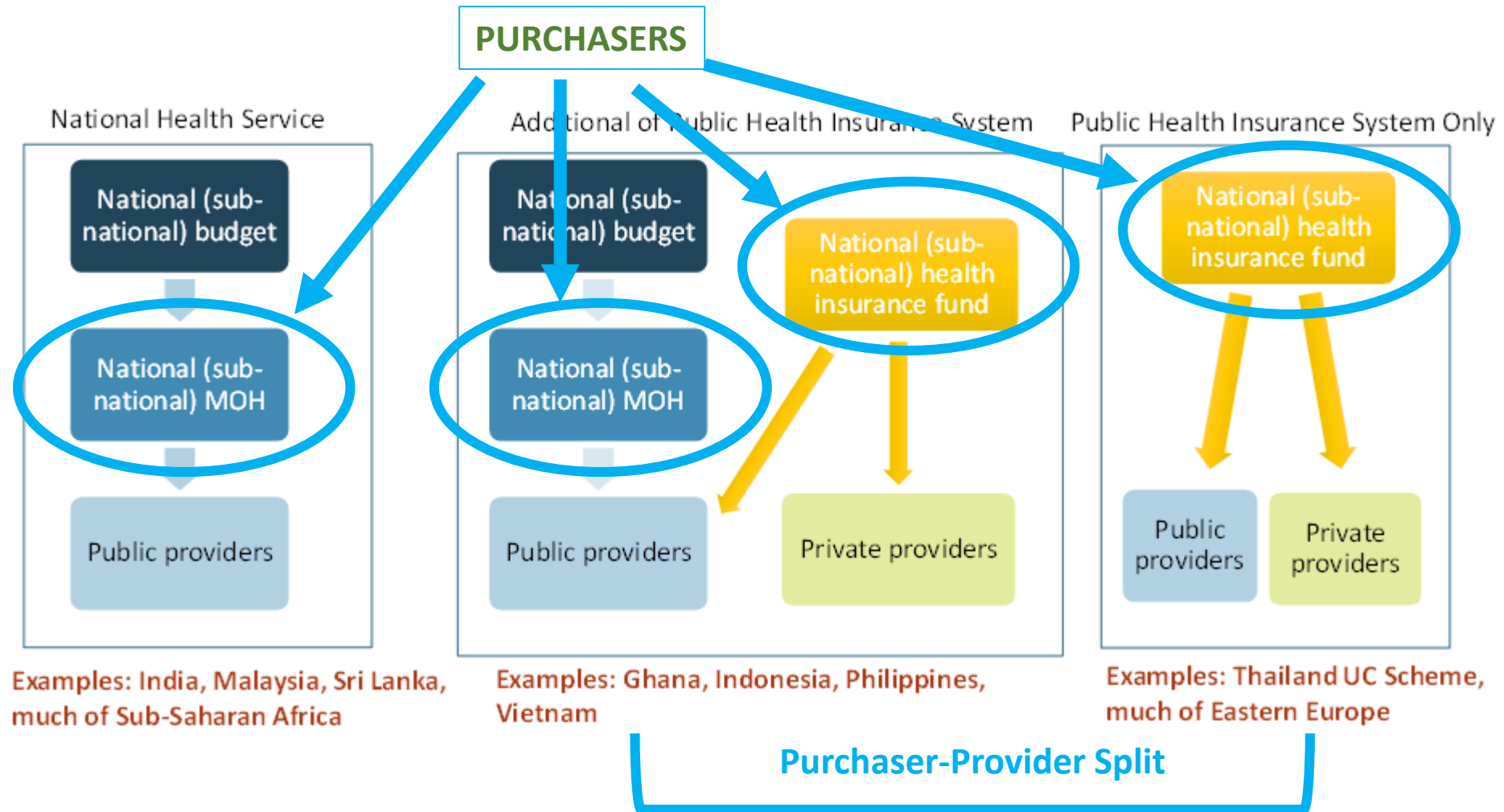
- ❖ Contracting and provider payment systems
- ❖ Information systems and data flows
- ❖ Monitoring systems

Capacity-building

What capacities are needed?

- ❖ Implement & manage improved systems

Overview of institutional arrangements for health purchasing



How are the purchasing arrangements in Rwanda organized? Are there areas for improvement?

Operational systems for strategic health purchasing

Information Systems

Contracting

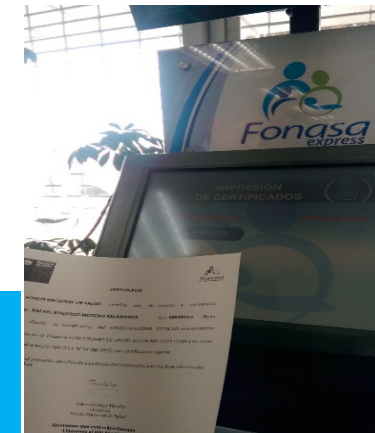
**Provider payment (design
and rate-setting)**

**Medicines pricing and
procurement**

Claims/payment processing

Provider Monitoring

- Quality and cost-effectiveness



Examples of sample operational systems

	Kenya	Thailand	Estonia	S. Africa
Information systems	Fully automated	Fully automated/some fragmentation	Fully automated/integrated	Automated
Contracting	Selective with some private and all public	Selective contracting private/public	Some selective contracting	Selective contracting with public and private
Claims processing	Automated	Automated	Automated	Automated
Provider payment	Mixed (Capitation, budgets, FFS)	Mixed (capitation, DRG, FFS)	Mixed methods (Capitation, DRG, FFS, P4P)	Mixed methods (Capitation, DRG, FFS)
Provider monitoring	Routine monitoring tools + IT	Routine monitoring tools	Routine monitoring tools	Routine monitoring tools

- How are the processes like in Rwanda?
- Are there areas that can be improved on?



Purchasing: what role does provider payment play?

- Refers to methods/ mechanisms used to allocate resources to providers
- Generate incentives that can affect the behavior of service providers
- How we choose the unit of activity for payment affects the supply and quality of services, promote efficient use of resources and attention to continuity of care.
- Most countries use a mixture of payment methods.

«Picking a payment system is like picking someone to marry. All options are imperfect. The question is what problems are you prepared to live with in the long run» Prof W. Hsiao



Purchasing: provider payment methods

- Strategic purchasing decisions create powerful incentives that influence the actions of all the organizations and individuals in the healthcare system
- Draw your attention to what incentives payment schemes create for both buyers and sellers and how you can adjust them to further the goals of health sector reform

Purchasing or payment methods

- You can link payment to influence the quantity of services (asymmetry of information)
- You can link payment to influence quality of services is more difficult:
 - Clinical quality (skill and judgment of providers)
 - Service quality (amenity, convenience etc.) is highly multidimensional and vary from individual to individual

Purchasing or payment methods

- For example:
 - Pay more for new technology, and hospitals will rush to acquire MRI machines
 - Pay hospital more for each day a patient stays, and lengths of stay go up
 - Pay more for caesarian sections, and their rate goes up and rate of normal deliveries will go down
 - Pay doctors on salary, they will see fewer patients. Pay them for each visit, they will see more patients
 - Pay hospital a fixed fee per admission, they will discharge patients quicker and sicker

Purchasing: provider payment methods

Payment method	Physicians and other health professionals	Hospitals and other provider institution
Fee-for-service	X	X
Salary	X	
Salary plus bonus	X	
Capitation	X	
Per diem		X
Per admission		X
Case-mixed adjusted admission		X
Line item budget		X
Global budget		X

Purchasing: provider payment methods

- Fee-for service: the *unit of payment consists of individual visits or clinical activities* such as injections, laboratory tests, and x-rays
- Salary: the *unit of payment is based on a time period* that employed health providers are at work, regardless of the number of patients seen, volume of services, or costs of services provided
- Salary plus bonus: the unit of payment=*salary* supplemented by *bonus of various kind based on performance* (individual productivity, patient satisfaction, test ordering behavior)

Purchasing: provider payment methods

- Capitation: the *unit of payment* is defined *on a per person basis*.
Providers are paid a fixed amount in advance to provide a **defined set of services for each individual enrolled for a fixed period of time**.
The most common capitation payment is when a fixed rate is paid to a general practitioner for each patient registered with him for that month, regardless of the services required by or rendered to the patient.

Purchasing: provider payment methods

- Per-diem: the unit of payment is *a fixed rate paid per day of hospitalization* regardless of the actual services given or their costs. Commonly used for hospitals.
- Per admission: the unit of payment is *a fixed amount based on admission*. The payment is made to cover all the services during a particular hospital stay regardless of the actual services provided.

Purchasing: provider payment methods

- Case mixed adjusted per admission: the *unit of payment is the disease and treatment categories*. Hospitals are paid a fixed amount per admission depending on patient clinical characteristics.

Ex: the Diagnosis related group (DRG). Each DRG has a payment weight assign to it based on the average resources used to treat patients in that DRG.



Purchasing: provider payment methods

- Line budget: the *unit of payment is an expense category* (e.g. salary, supplies, transportation, drugs) for an organization. Providers receive a fixed amount to cover **specific input expenses** (e.g., personnel, drugs, utilities,).

Once the agency (e.g., the ministry of finance) has approved the budget, the provider has little discretion to switch funds across budget categories.

Purchasing: provider payment methods

- Global budget: This payment method sets an all inclusive operating budget in advance. Providers receive a fixed amount of funds for a certain period to cover **aggregate expenditures**. Budget is flexible and not tied to line items.



Purchasing: provider payment methods: physicians or other health professionals

Payment mechanism	Unit of payment	Risk is borne by		Provider incentives to			
		Payer	Provider	↑ Nb patients	↓ Nb services/ payment unit	↑ reported illness severity	Select healthier patients
Fee for service	Unit of service	All risks	No risks	Yes	No	Yes	No
Salary	Time	All risks	No risks	No	N/A	N/A	No
Salary+bonus	Time+ performance	Salary	Bonus	Yes	N/A	N/A	Yes
Capitation	Persons registered	Amount above "stop loss" ceiling	All risk up to a given ceiling (stop loss)	Yes	N/A	No	Yes

Purchasing: provider payment methods: hospitals

Payment mechanism	Unit of payment	Risk is borne by		Provider incentives to			
		Payer	Provider	↑ Nb patients	↓ Nb services/ payment unit	↑ reported illness severity	Select healthier patients
Fee for service	Unit of service	All risks	No risks	Yes	No	Yes	No
Case-mix adjusted admission	Admissions by disease category	Risk of nb & severity of case	Risk of cost of treatment for a given case	Yes	Yes	Yes	Yes
Per admission	Admissions	Risk of nb admissions	Risk of Nb of services per admission	Yes	Yes	No	Yes
Per diem	Days	Risk nb of days to stay	Risk of cost of services within a given day	Yes	Yes	No	No
Capitation	Persons registered	Amount above "stop loss" ceiling	All risk up to a given ceiling (stop loss)	Yes	Yes	N/A	Yes
Global budget	Hospital expenditure	No risks	All risks	No	N/A	N/A	Yes

Purchasing: provider payment methods: patients

- Deductibles: payment made by the patient before the insurance policy begins to cover the incurred expenses.
- Copayment: fixed payment made by the patient for each physician visit or each hospital day
- Coinsurance: Patients pay a certain percentage of their costs

Purchasing: provider payment methods and patients

Payment mechanism	Risk is borne by		Incentives for
	Payer (eg, insurance, Gov)	Patient	Patient
Fee for service	All	None	↑ demand
Full user fees	None	All	↓ demand
Deductible	Amount above deductible	Amount up-to-total deductible	↓ demand until deductible amount reached, then ↑ demand
Fixed copayment/visit	Full charge minus copayment	Copayment	↓ demand for visits
Coinsurance (% of charges)	(1-X)% charges	X% charges	↓ demand (depending on % of coinsurance)



Strategic purchasing in practice

- Emphasizes primary health care (PH) services:

Ex:

- Pays relatively high amounts for PH services in order to reflect their priority
 - Protects funding for PH services
- Purchasing Primary health care services more strategically
 - Mixed payment approach: by combining capitation payment with an additional Performance based payment linking payment based on the delivery of specific services, or targets met, that are expected to improve health.
 - Paying relatively high rates for services that address the needs
 - Gatekeeping

Strategic purchasing in practice

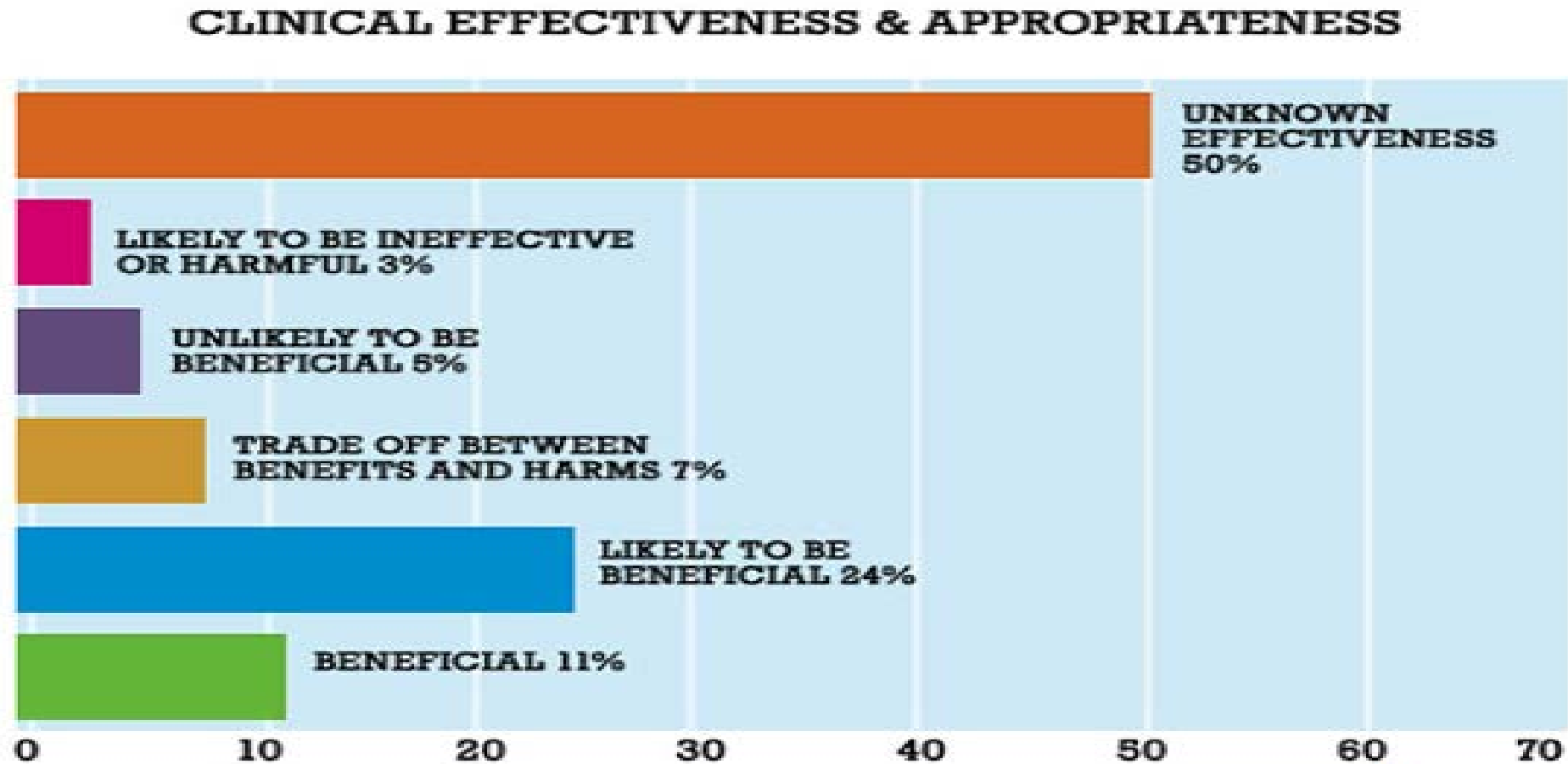
- Uses incentives to limit the provision of services which are expensive to provide:
- Examples:
 - Introduces co-payments for patients who by-pass primary care, by self-referring to hospitals or specialists
 - Pays relatively low prices for high-cost but low-priority services
 - Links some part of payment to performance
- Negotiates over the price of medicines



Institutional arrangements

- The main policy issues include:
 - whether or not to introduce a purchaser which is independent of providers, a situation often known as a 'purchaser-provider split'
 - whether there is only one purchaser of services or multiple purchasers
 - the extent to which purchasers and providers are autonomous; for example, the flexibility they have to manage their own budgets and make decisions on staffing.

Challenges facing purchasers



SOURCE: BMJ CLINICAL EVIDENCE





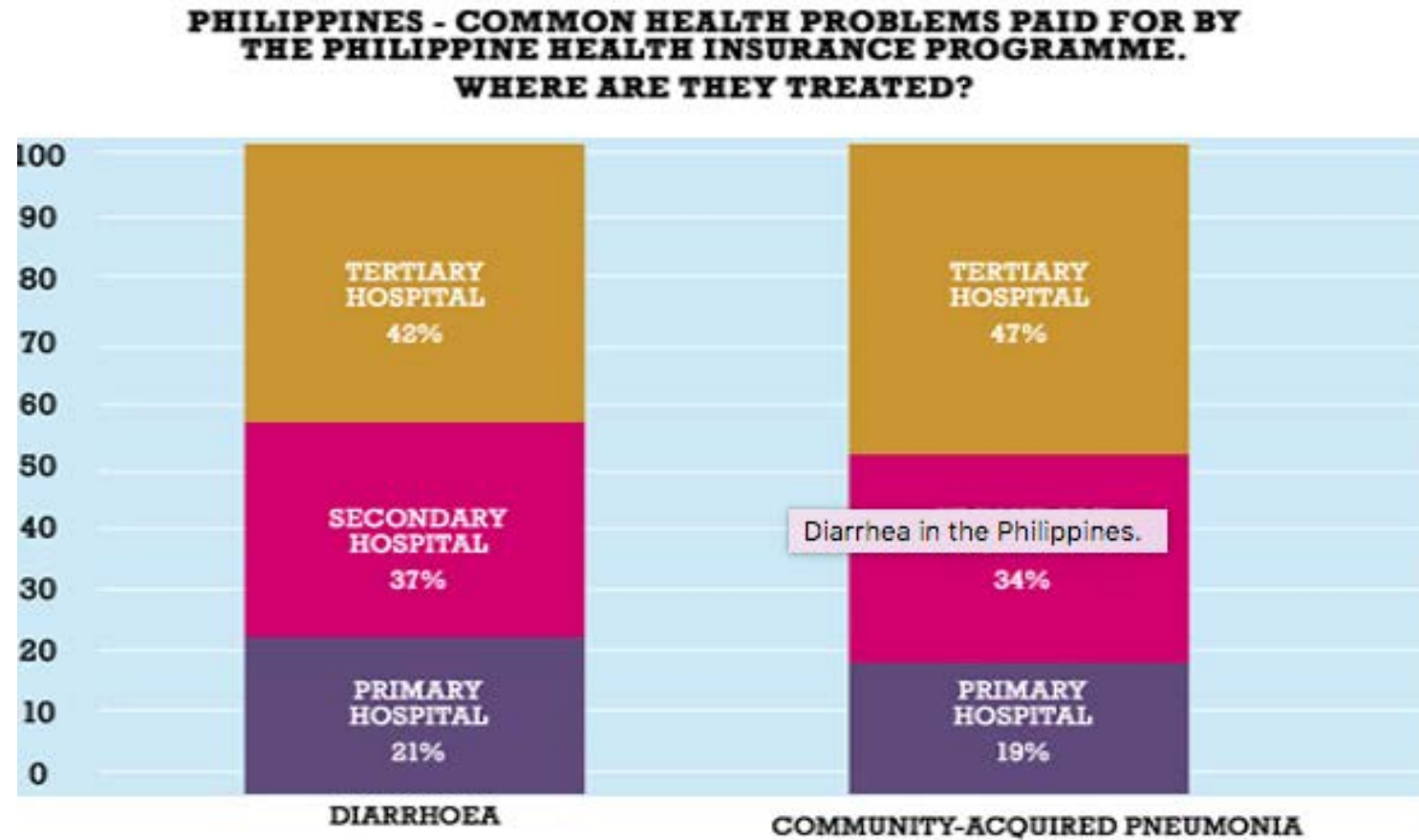
Challenges facing purchasers



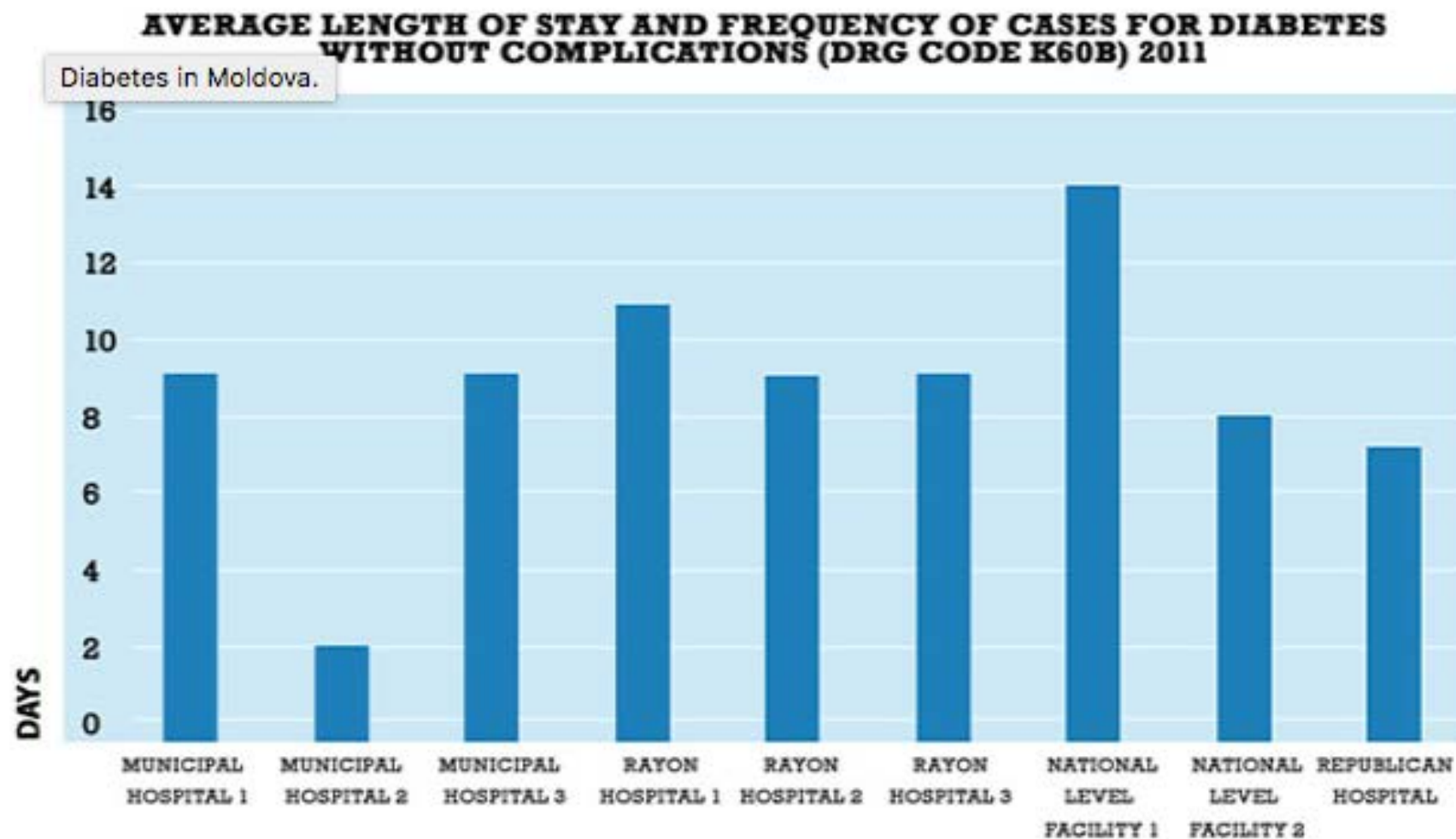
US MEDICARE: MEDICAL ERRORS IN 2006:

- PRESSURE ULCERS (322,946 CASES)
- CATHETER-ASSOCIATED URINARY TRACT INFECTIONS (11,780 CASES)
- FALLS FROM BED (2,591 CASES)
- OBJECTS LEFT IN PATIENTS AFTER SURGERY (764 CASES)

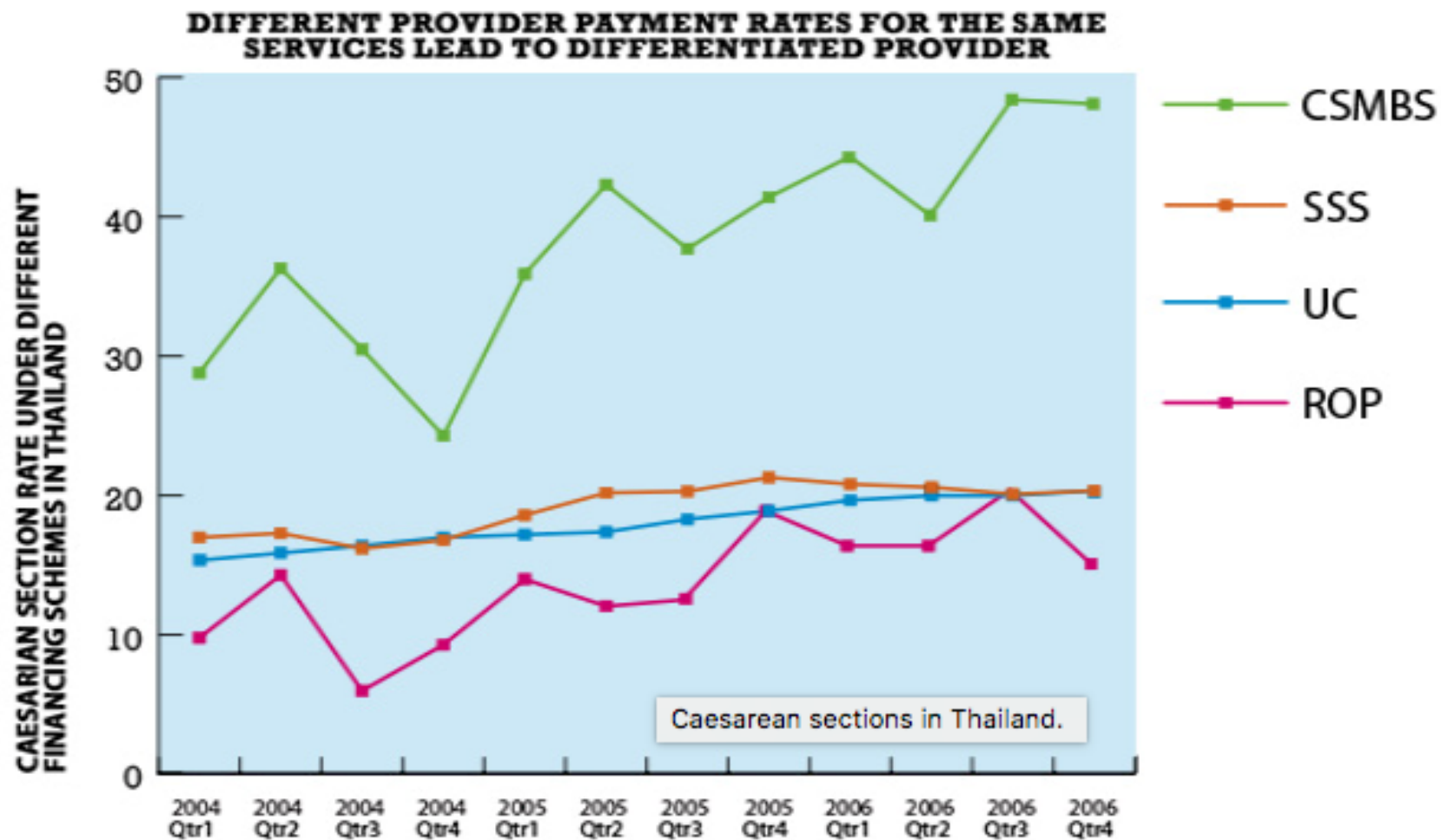
Challenges facing purchasers



Challenges facing purchasers



Challenges facing purchasers



In summary-strategic purchasing

Identify the
interventions or
services to purchase

Choose service
providers

Determine how
services will be
purchased

Remember the unit
of activity for
payment affects the
supply, efficiency,
and quality of health
services

All payment options
are imperfect. It
depends on your
context and
objectives