

# PURCHASING HEALTH SERVICES FOR UNIVERSAL HEALTH COVERAGE: HOW TO MAKE IT MORE STRATEGIC?



HEALTH FINANCING POLICY BRIEF NO. 6

# **PURCHASING HEALTH SERVICES FOR UNIVERSAL HEALTH COVERAGE: HOW TO MAKE IT MORE STRATEGIC?**

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Organization**

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## Key Messages

- Purchasing refers to the allocation of pooled funds to healthcare providers for the delivery of health services on behalf of certain groups or entire population. Purchasing of health services is to be distinguished from the procurement of medicines and other medical supplies in bulk.
- Purchasing is considered to be strategic when these allocations are linked, at least in part, to *information* on aspects of provider performance and the health needs of the population they serve, while managing expenditure growth.
- Strategic purchasing involves several core areas that should be aligned and addressed jointly, namely:
  - specification of services and interventions (“what to buy”);
  - choice of providers (“from whom to buy”); and
  - design of financial and non-financial incentives (“how to buy”) – this refers to provider payment mechanisms and contractual arrangements.
- Information is intrinsic to strategic purchasing and needed for the above questions and a key enabler for effective governance of strategic purchasing to enable progress towards UHC objectives.
- For the purchasing function to contribute to progress towards UHC, it must be strategic. Strategic purchasing transforms budgets into benefits, with the aim of distributing resources equitably, realizing gains in efficiency and managing expenditure growth and improving quality.
- Reforms which enhance the strategic nature of purchasing can be incremental and packaged rather than radical or big-bang. Many of these reforms are within the realm of the health sector and can often be guided by the Ministry of Health. Nonetheless, it is important not to ignore the political economy behind strategic purchasing reforms.

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# 1. WHAT IS PURCHASING AND WHEN IS IT STRATEGIC?

This policy brief aims to show how strategic purchasing contributes to progress towards universal health coverage (UHC)<sup>1</sup> and how countries can make their purchasing more strategic.

**Purchasing is a core health financing function that refers to the allocation of pooled funds to public and private health care providers for the health services they provide.** Medicines and other medical supplies included in the provision of care or as part of inpatient or outpatient benefits are included in this definition. Importantly, purchasing of health services must be distinguished from procurement of medicines

and medical supplies. Procurement refers to the process of selecting vendors, establishing payment terms and negotiating contracts for obtaining commodities in bulk [1]. Similarly, whilst investment, infrastructure and human resources are important for the provision of health services, human resource management and the planning of investments and infrastructure are not part of this paper on purchasing.

**The purchasing landscape is often complex due to the existence of multiple purchasers and an ever-growing and diverse private sector of health care providers,** including for-profit and not-for-profit providers.

## What is a purchasing agency?

Purchasing agencies can take many forms, such as the Ministry of Health, subnational authorities (e.g. at provincial or district levels), a mandatory or voluntary health insurance agency (or multiple insurance agencies), a community-based health insurance organisation, a non-governmental organization, etc.

**There is a growing consensus that purchasing of health services must be more active or strategic if countries are to make progress towards UHC.** However, purchasing of health services is often rather passive – i.e. resources are allocated to any providers without distinction, without consideration of their performance, and for a package of benefits that is poorly defined. There are hence few if any financial incentives for providers to do better.

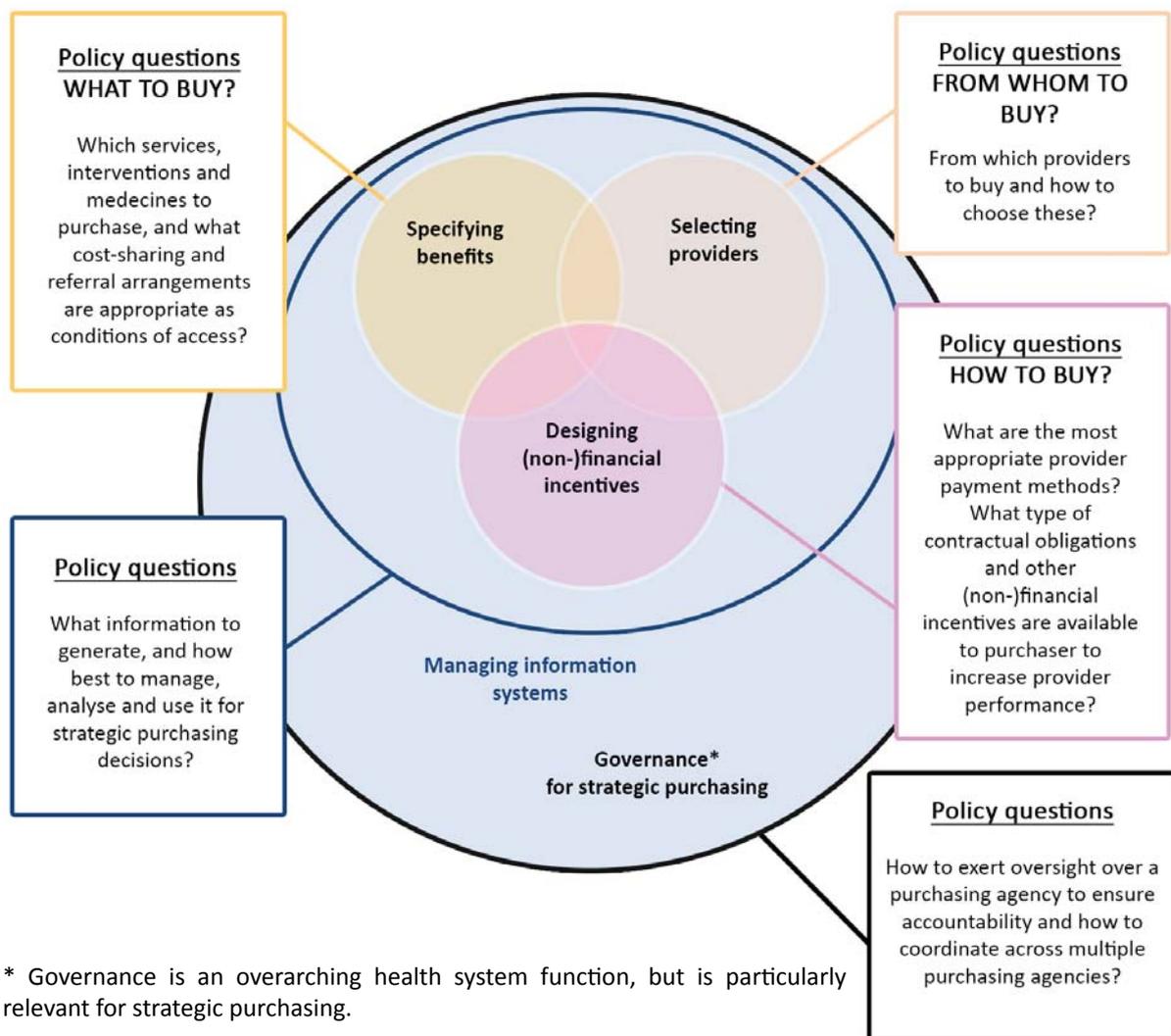
**Strategic purchasing means aligning funding and incentives with legal entitlements to health services and must therefore be guided by detailed information on the performance of providers and the health needs of the population served [2].** Strategic purchasing aims to maximize health system objectives through an active, evidence-based process that defines which specific health services should be bought from which providers, how the services should be paid for and at what

<sup>1</sup> Universal health coverage (UHC) means that all people can access health services of good quality without experiencing financial hardship [2].

rate they should be paid. Strategic purchasing is not only relevant to dedicated purchasing agencies, e.g. health insurance funds. While strategic purchasing may be easier when the functions of purchasing and provision are separated, it does not necessarily require an institutional purchaser-provider split [3].

**Strategic purchasing involves several interrelated areas, which need to be aligned and addressed jointly.** These are presented together with their respective policy questions in Figure 1 below and are further outlined in Section 4.

**Figure 1: Core areas of strategic purchasing and policy questions**



Source: Authors compilation<sup>2</sup>

**A country’s purchasing arrangements are usually neither completely passive, nor fully strategic.** Countries at all income levels are seeking to progress on this continuum

towards more strategic purchasing [4]. Improvements in any of the areas outlined above contribute to making purchasing more strategic.

<sup>2</sup> The three core questions “what to buy”, “from whom to buy” and “how to buy” are based on the World Health Report 2000.

## 2. WHY IS STRATEGIC PURCHASING IMPORTANT FOR UNIVERSAL HEALTH COVERAGE AND HOW FEASIBLE IS IT?

**Revenue raising and effective pooling of funds for health are important, but strategic purchasing is vital for countries to be able to progress towards UHC.** Strategic purchasing transforms budgets into effective coverage, with the aim of realizing gains in efficiency and managing expenditure growth. This frees up resources and, as such, is an important revenue source for expanding service or cost coverage. It also seeks to improve quality by giving signals to health providers. Strategic purchasing can also improve financial protection through reduced out-of-pocket expenditure, make the distribution of resources more equitable and enhance the transparency and accountability of providers and purchasers [5].

**Numerous countries have made progress towards UHC through improvements in strategic purchasing in the past two decades**

developments (e.g., new health technologies, new priorities, changes in provider behaviour or greater availability of data) continually emerge, requiring the adaptation of purchasing arrangements. Because of its significance, strategic purchasing for UHC needs to receive much more attention [1].

**Strategic purchasing reforms do not have to be big-bang changes but can be gradual and in several packages.** Reforms aimed at making purchasing more strategic are not always easy but, importantly, they can be introduced step-by-step: building the information management system, specifying benefits to align with payment methods and vice versa, modifying payment methods and rates to improve service provision, and putting in place an accreditation system, etc. These measures can drive system change and, being within the realm of the health

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