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POLICY & RESEARCH BRIEF

MAKING PROVIDER PAYMENT MECHANISMS MORE STRATEGIC

Removing roadblocks to implementation

Drawing on the experiences of a range of countries in Africa and Asia, this brief provides strategies to avoid or overcome obstacles to implementing strategic provider payment mechanisms to advance Universal Health Coverage.

Introduction

Changing and refining provider payment mechanisms to encourage more efficient and responsive service delivery is part of the roadmap to Universal Health Coverage (UHC) in many low- and middle-income countries. It is also an important element of strategic purchasing: actively determining which services will be included in benefit entitlements and how they should be delivered, which providers, and how they will be contracted and paid for – in other words, changing from purchasing inputs to purchasing services.

The provider payment mechanism (PPM) is the form that payment takes when funds are transferred from a healthcare purchaser to a provider. Providers can be paid using line-item budgets, fee-for-service (FFS), capitation or case-based payments such as diagnosis related groups (see box 1). Different PPMs create incentives that can influence the treatment choices that providers make and the way that patients access services and move through the referral system.

Countries are at various points in the process of implementation of strategic PPMs: some have already changed from input-based budgets to output-oriented payment systems and are able to introduce ongoing refinements; some are in the process of improving payment systems but face implementation challenges; and others have the development of strategic provider payment mechanisms in their national health financing strategies but are still in the process of developing detailed plans.

Changing and refining provider payment is both a technical and a political process. It is complex and riddled with potential "roadblocks" that can arise from technical or political constraints, or misalignment between provider payment objectives and other policies such as public financial management or decentralization. In addition, there are likely to be important sequencing issues – if certain systems are not in place, obstacles can arise that can cause steps in the implementation process to stall. Whatever the current PPM or stage of reform, there are several key strategies that can help put countries on the right track to a more strategic PPM.

A recent gathering of researchers, policymakers and programme managers shared their experiences of PPM reform, in order to identify common roadblocks and strategies to avoid or overcome them.

Box 1: Commonly used provider payment mechanisms

Fee-for-service (FFS)	Providers are paid for each individual service provided. Fees may be fixed in advance for each service or group of services
Capitation	Providers are paid a fixed amount in advance to provide a defined set of services for each individual registered with that provider for a fixed period
Case-based payment	Hospitals are paid a fixed amount per admission or discharge depending on the patient and clinical characteristics
Line-item budget	Providers receive a fixed allocation to cover input costs e.g. personnel, utilities, medicines, supplies

Source: Adapted from WHO https://www.who.int/health_financing/topics/purchasing/payment-mechanisms

In practice, health care providers are often required to manage multiple sources of funds and different PPM concurrently, for example, one hospital may receive capitation payment for out-patient services, case-based payments for specialized services and line-item budgets for salary and overheads.

Common roadblocks to implementing strategic PPM include:

- Inadequate information systems that do not support PPM design, implementation and monitoring requirements.
- Lack of technical capacity to design and implement well-functioning payment systems that create the right incentives throughout the health system.
- Inadequate stakeholder engagement and the political economy challenge of engaging multiple actors who often have conflicting goals.
- Use of multiple PPMs for different services or different levels of care, resulting in conflicting incentives for providers and fragmentation of the health system.
- Public financial management (PFM) rules that restrict innovations in PPM design, create bottlenecks in funds flow, flexibility and autonomy of providers to be responsive to their population's needs.
- Decentralized health systems that lack alignment in roles of various actors in purchasing health services.

Avoiding roadblocks to implementation

Put in place foundations that are necessary to make any PPM work well

- Ensure purchasers have the overall capacity to manage payment systems of varying complexity, e.g. capacity to manage, monitor and enforce contracts and to make timely payments to providers.
- Ensure healthcare providers have capacity to manage referral systems and undertake a gatekeeping role if required, to register and enroll citizens, and to track payments.
- Put in place systems to collect data to monitor and evaluate payment mechanisms, or to inform PPM design.
- Consider the multiple PPMs that are in place and the conflicting incentives provided by the multiple funding flows that providers face.

Have consideration for the political context and be prepared to actively shape the policy discourse

The process of provider payment reform is highly political, resulting in a reallocation of (scarce) resources that will benefit some groups and disadvantage others. Powerful lobby groups can influence political decisions and political will to reform.

- Understand the interests and power dynamics between different groups and when there are political opportunities for reform.
- Politics should not necessarily be taken as a fixed constraint: there may be a need to engage in political debates and policy processes to achieve more effective payment mechanisms.
- Tools such as stakeholder analysis can help navigate politics, by identifying areas of common and conflicting interests, and shaping implementation strategies to address these.

Communications need to be part of every stage

- Provider payment involves many stakeholders including policymakers, (public and private sector) healthcare providers, purchasers and clients. It is necessary to engage with all stakeholders through the process of selecting the mix of payment methods, design of payment systems, implementation and refinement, to achieve consensus-based decisions and manage change effectively.
- Carefully tailor messages to address the specific interests and concerns of different stakeholder groups.
- Use appropriate channels of communication, or create new ones where needed, including through the media.
- Inform members of the public about PPM using accessible language.
- Create platforms for multi-stakeholder dialogue and collaboration to solve problems.

Optimize public financial management (PFM) arrangements to achieve health system goals

PFM systems are critical for ensuring government funds for health are managed well, and provider payment systems are integral to the effective use of public funds. However, PFM systems can act as a barrier to PPM reform where the systems for budgeting and accounting for public funds are based on inputs, and providers lack autonomy.

There are a number of creative solutions to PFM misalignments including:

- Fewer, larger line items to increase flexibility for resource allocation at the provider level.
- Create a line item for an activity or service package rather than input.
- Negotiate permission for public facilities to retain revenue and have greater financial autonomy in decision-making.
- Disburse funds by output and account for them by input.
- Set up an independent parastatal purchasing agency not bound by PFM rigidities.

Selecting and designing payment mechanisms

Select and design payment systems to achieve objectives within existing system capacity, while at the same time balancing risk between purchasers and providers and avoiding extremes

There is no ideal PPM, and all types can play a role in helping to achieve the right incentives to achieve health systems goals of accessibility, quality, and efficiency.

- Assess the impacts of alternative payment mechanisms relative to health system objectives, taking into consideration the evidence and experiences of other countries that have introduced reforms.

- Ensure purchasers and providers share the burden of financial risk associated with different payment mechanisms to achieve a stable system whereby all groups' needs are met.
- For capitation, which places a higher financial risk on providers, consider risk mitigation strategies, e.g. removing some services from the capitation package, or requiring a minimum number of enrollees for each provider (although these strategies can also raise their own problems).

Many countries are shifting towards capitation for primary health care (PHC), but the implementation arrangements are critical.

In some countries where capitation has been poorly implemented, policymakers are considering switching to alternative mechanisms. In doing so they also risk losing its benefits in PHC provision, such as the incentive for providers to focus on health promotion and prevention to limit costs. When shifting to a capitation based system, it's important to ensure that key implementation arrangements are in place and working for capitation. These include:

- An effective and timely enrolment/registration process.
- Providers have the capacity to deliver the package of services.
- Ensuring a minimum set of data is collected from providers when moving away from claims for payment.
- Timely payments are made to providers.
- Consider how patients will access services if they are away from their registered facility (portability of benefits) and how these providers will be paid.
- Address issues of small low-population providers, which may require special measures, e.g. fixed minimum payment.

Start simple and make adjustments based on implementation experience

- Ensure systems are in place for ongoing feedback to detect problems and allow fine-tuning.
- Make decisions based on the emerging evidence and implementation experience rather than on political pressures.

Switching to new payment systems

Proceed with caution when switching to new payment systems

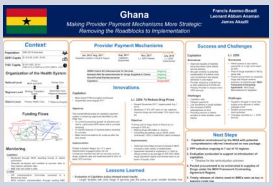
Changing methods for paying providers is a huge undertaking and can have major impacts on healthcare provision. Moving to a new PPM without first addressing the challenges faced by existing PPM may not solve the initial problems, and can have long-term consequences if the experience with a new payment mechanism discredits it.

- Understand what is working well and what the challenges are with current payment systems: are the challenges with the payment system itself, the design, and/or implementation arrangements?
- Consider what adjustments can be made to improve the existing system, and what political compromises can be made to satisfy all stakeholders.
- Conduct simulations on budget impact and consider other implications before moving to a new PPM.
- Ensure key implementation arrangements are in place before changing mechanisms.

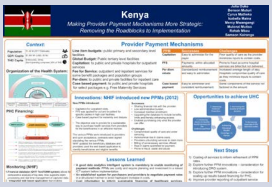
Country posters

Click on the thumbnails to view posters about the countries that attended the PPM workshop. The posters cover countries' experiences of PPM reform, their successes, challenges and lessons learned.

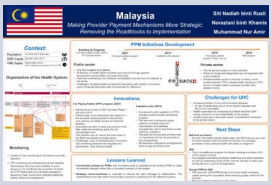
Ghana



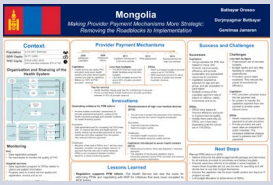
Kenya



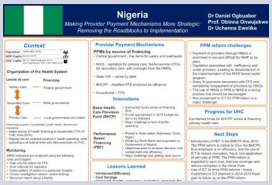
Malaysia



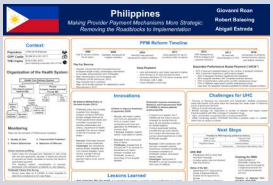
Mongolia



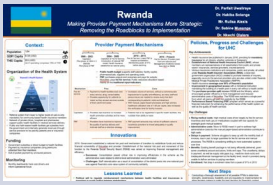
Nigeria



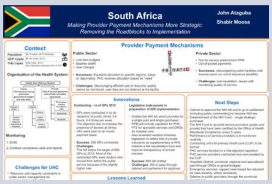
Philippines



Rwanda

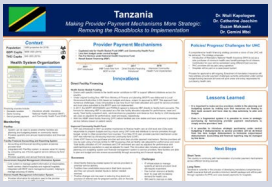


South Africa

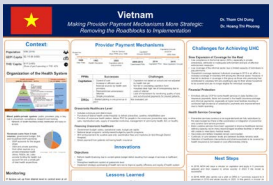


Sudan

Tanzania



Vietnam



Research agenda

PPM reforms are most effective when they are supported by evidence. However, there remain significant knowledge gaps that limit informed decision-making. The questions and methods set out below help to address these gaps and support policymakers in their PPM reforms.

Research questions

What information is needed for policymakers to address key questions around provider payment?

- What are different stakeholders' (policymakers, purchasers, providers, patients) views of existing or potential PPM?
- What are the prerequisites for successful implementation of a change in PPM, and does capacity exist?
- What are service costs and cost drivers to inform payment levels?
- How do multiple funding flows and incentives influence provider behavior? How can these flows be better aligned?
- What is the impact of changing a PPM on service quality, efficiency, responsiveness?
- How can PPM be used to improve quality?

Research methods and approaches

What types of research and evidence can best answer the questions and be useful to policymakers?

- Case studies of successful implementation, and countries with challenges
- Institutional assessments
- Systematic literature reviews
- Stakeholder analysis
- "Learning sites" to gather real time information about implementation of change
- Media and discourse analysis
- Impact evaluations

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The views expressed in this brief do not necessarily reflect the funders' official policies.

Recommended resources

- **Assessing Health Provider Payment Systems: A Practical Guide for Countries Working Toward Universal Health Coverage**. C. Cashin, ed. 2015. http://www.jointlearningnetwork.org/resources/assessing-health-provider-payment-systems-a-practical-guide-for-countries-w
- **What is strategic purchasing for health?** RESYST research brief. 2014 https://resyst.lshtm.ac.uk/resources/what-is-strategic-purchasing-for-health
- **Examining multiple funding flows to public healthcare facilities in Kenya**. Rahab Mbau, Evelyn Kabia and Edwine Barasa, et al. RESYST policy brief. 2018 https://resyst.lshtm.ac.uk/resources/examining-multiple-funding-flows-to-public-healthcare-facilities-in-kenya

About

This brief is based on discussions at a workshop on strategic PPM held in Kenya in November 2018, jointly organized by JLN (Joint Learning Network for Universal Health Coverage), RESYST (Resilient and Responsive Health Systems Research Consortium) and SPARC (Strategic Purchasing Africa Resource Centre). The workshop brought together policymakers and researchers from: Ghana, Kenya, Malaysia, Mongolia, Nigeria, Rwanda, South Africa, Sudan, Tanzania and Vietnam.

Joint Learning Network for Universal Health Coverage

http://www.jointlearningnetwork.org

The JLN is an innovative, country-driven network of practitioners and policymakers from around the globe who co-develop global knowledge products that help bridge the gap between theory and practice to extend coverage to more than 3 billion people.

RESYST (Resilient and Responsive Health Systems Research Consortium)

http://resyst.lshtm.ac.uk

RESYST was a research consortium funded between 2010 and 2018 by the UK Department for International Development, to conduct health systems research on the themes of health financing, governance and the health workforce.

SPARC (Strategic Purchasing Africa Resource Center)

The Strategic Purchasing Africa Resource Center (SPARC) is a new resource hub aimed at strengthening strategic purchasing capacity in Sub-Saharan Africa by connecting existing regional expertise and matching it with country demand to make better use of resources.