Developing a strategic mix of private and public provision of health services in order to achieve health reform objectives can be complex. Policymakers may wonder about what private providers could contribute to public health goals. The decision to collaborate with the private sector depends on whether working with the private sector offers a more cost-effective way to achieve health objectives than other interventions involving public providers.

Private sector financing of health care is an integral component of developing country health systems. Private financing may include payments by individuals for pharmaceuticals and hospital stays, employer reimbursement for employees’ healthcare costs, and other forms of private payments for healthcare. These types of payments may actually be paid to public sector health facilities. Encouraging private financing to supplement limited government funds is an important strategy in addressing budgetary issues. While it is difficult to separate service delivery and financing issues, this primer focuses more on the public-private service delivery mix rather than on the public-private financing mix. The purpose of this primer is to provide a conceptual framework for policymakers who are considering how best to strengthen the delivery of priority services by working with the private sector.

Collaboration with the Private Sector
The decision to collaborate with the private sector depends on whether working with the private sector offers a more cost-effective way to achieve health objectives than other interventions involving public providers.
It is increasingly recognized that private providers can (and often do) deliver services that are of high public health priority, such as immunization or STD treatment. In the USAID context, the term *priority services* refers to a specific set of interventions, which include prenatal care, family planning, and management of infectious diseases. Within this primer, however, the term will be used in a broader context to refer to those services that are public health priorities for local policymakers.

**Importance of the Private Sector**

In many countries, private providers are primary care providers for large segments of the population, and thus they are a valuable distribution channel for priority services. In India, there are one million semi-qualified urban and rural medical practitioners, and 61 percent of outpatient consultations are made with private providers. Using the delivery of family planning as an example, the table below shows the range of private sector participation in delivery of a priority service among different countries.

In addition to being very large, the private sector is very heterogeneous. In some countries it consists primarily of the NGO or mission sector. In other countries it may consist primarily of non-Western medical providers, ranging from traditional birth attendants without formal training to accredited ayurvedic practitioners. Private pharmacies are also important providers, since many people self-medicate without seeking a medical diagnosis. Lastly, the private sector may include sophisticated state-of-the-art hospitals in the urban centers of more well-off countries. Government strategies to work with the private sector will vary according to the types of providers that are prevalent in the country.

**Private Sector Contribution to Health Reform Objectives**

Most countries undertaking health sector reform generally seek to improve equity, access, quality, efficiency, and sustainability of health care. Private providers may have advantages over public providers in assisting the government to achieve these objectives:

- **Equity.** Encouraging higher income segments of the population to use unsubsidized private providers can contribute to equity by freeing up government funds that can be used to provide priority services to segments of the population that cannot afford to pay.

- **Access.** Private providers may be located in areas where there is no existing public provider, or they may be available during more convenient hours (in the evening).

- **Quality.** Quality must be differentiated into clinical and non-clinical quality. Patients often consider private providers to be higher quality than public providers, since they generally consider short waiting times, courteous staff, or greater privacy to be attributes of high quality. These measures all relate to non-clinical quality; clinically, however, private providers may or may not provide better quality.

- **Efficiency.** It is often argued that private providers are more efficient than public providers, that is, they are able to provide services of equal quality at lower cost. Although there is limited empirical evidence to support this, private providers may have efficiency advantages such as lower administrative costs or more motivated staff.

- **Sustainability.** Private providers can contribute to sustainability by creating an open market for health care services, independent of changes in government policies and budgetary constraints. Encouraging people to use and pay for unsubsidized private providers can also reduce the government’s financial burden.
While the private sector may not provide superior results in all of these areas, strengths in some areas suggest that private providers can be an important part of the broader strategy to improve delivery of priority services. The decision to mobilize the private sector to help achieve government objectives largely depends on a cost-effectiveness question: is working with private providers the most cost-effective way to achieve the government objectives? Various strategies involving the private sector must be compared with potential interventions that can improve public sector delivery — improving management to increase efficiency, establishing new public facilities to improve access, etc. This primer describes a framework for market analysis, strategy selection, and implementation that policymakers can use to analyze the desirability of working with private providers.

Analysis of the Market for Priority Services

Careful data collection and analysis is needed to determine whether private providers would be useful partners in achieving government objectives. This analysis should incorporate:

1. the relative strengths of public versus private providers;
2. characteristics of providers; and
3. the behavior and characteristics of targeted consumers.

These three factors are inter-dependent, so they must be considered simultaneously in a market analysis. For example, if private providers are more accessible for consumers in urban areas, they would not be good partners if the objective is to target consumers in rural areas. Private providers alone will seldom be the solution — a market analysis may find that the most effective interventions involve strengthening public providers, influencing consumer behavior, or offering some combination of these strategies.

1. Relative Strengths of Public and Private Sector Providers in Service Delivery

The most relevant characteristics of public and private providers are their relative strengths in improving access, quality, and efficiency. Having an accurate assessment of the strengths of each type of provider will help determine whether working with the private sector might help achieve health reform objectives. Unlike the characteristics of accessibility, quality, or efficiency, neither public nor private providers are intrinsically more equitable or sustainable. It is the underlying financing systems that determine the equity and sustainability of public and private providers, and so these concerns are discussed briefly.

The ability of private providers to increase access to priority services depends on the location of private providers with respect to public providers. In some countries and depending on the type of provider, private practitioners are extensive, with a provider in nearly every village. These providers may also be more accessible in terms of their hours of operation. Similarly, a not-for-profit provider may have an extensive network of community-based health workers in a particular area. In these cases, it would be advantageous for the government to collaborate with these providers, who already have an extensive presence, and are more accessible to the consumer than public health facilities. On the other hand, private providers may be concentrated in relatively wealthy urban areas, in which case they would not expand access to underserved populations but may be useful if the government is seeking to encourage affluent consumers to use unsubsidized providers.

Private providers often deliver better non-clinical quality compared to public providers. Higher quality could influence people to use a health service or to pay for it, when they would not do so at a public provider. But there are also situations where the clinical services provided by private providers are of lower quality. If these services do not meet minimum quality standards, it would not be effective for the government to work with private providers, even if they could attract more users. In this case, it might be effective to invest in additional training or supplies for the private providers, to improve the quality of their services.

In addition to considering quality and accessibility issues, governments should use providers who are most efficient, or who can deliver services at the lowest cost, thus saving money for the government. Although it may be difficult to analyze the cost of specific services within the public health system, such information is critical to formulating a government strategy. The decision to use private providers depends
on a comparison of the government’s cost of provision and the price a private provider would charge for delivering the same service. Government costs are impacted by the operational capacity of government facilities and by the level of private provider involvement in replacing or expanding government services. For example, if there is excess capacity (no additional facilities, equipment, or staff are needed), then the cost to expand government delivery will be relatively low (just the cost of medicines or supplies). But, if the government is operating at full capacity or is expanding delivery in an area where there are no government facilities, then government costs will be much higher, as they will include investments in costly facilities and equipment. This type of cost comparison would also apply if the government is considering using private providers to completely replace its own services.

Equity and sustainability are also important goals, but they relate more to financing rather than to service delivery policies. For example, if equity is a concern because services are unaffordable for the poor, then improving equity means relieving the financial burden. Designing the best strategy to accomplish this task begins with considering public and private providers in terms of their accessibility, quality, and efficiency.Regardless of whether private or public providers are found to be the most cost-effective, equity is dependent on changes in financing policies, such as providing subsidies to certain providers or vouchers to the poor. Similarly, if the goal is to improve equity and sustainability by shifting affluent users to the private sector, analysis of the relative strengths of public and private providers is required to determine whether the strategy would be appropriate. If it is found that public providers are more accessible for the affluent and provide higher quality services, then a better strategy may be to eliminate subsidies for the affluent at public facilities and not to force a shift to the less accessible lower quality private providers.

If it is found that public providers are more accessible and efficient, and provide higher quality services, then working with private providers is not the best way to improve or expand service delivery — concentrating on improving and expanding public sector services would be more effective. If it is determined that private providers have certain strengths that can assist the government meet its health objectives, then specific information about private providers and consumers is needed in order to identify strategies for increasing the level of private sector supply and consumer demand to meet health goals.

2. Characteristics of Providers (Supply)

Designing appropriate government interventions to encourage private sector supply of services requires information about providers in order to target the most effective group of private providers. Analysis of the provider market should focus on those providers that serve or could serve the target population. Key data needed are:

- information about the types of providers (cadre of provider, public or private sector) who provide the priority service — and whether they are serving or can serve the target population;
- information about the types of providers with whom the target population has frequent contact — and whether they could deliver the priority service;
- information about the types of clients private providers serve — and whether these clients are the targeted population;
- information about why certain types of providers do not deliver the priority service, or do not deliver it to the target population — reasons may include lack of training in service delivery, lack of appropriate inputs (equipment or medications), lack of capacity, or lack of financial incentives.

All these factors must be considered in relation to the providers’ contribution to access, quality, and efficiency. It may be found that the group of suppliers that serves the target population has substandard quality services, in which case the government may choose to forego working
3. Behavior and Characteristics of Targeted Consumers (Demand)

Understanding the behavior of consumers and the nature of market demand is critical if the government wishes to expand coverage to non-users, or to encourage some users to pay for services at private providers. Defining the characteristics of the target group would include obtaining information such as:

- Location of target group — rural/urban, specific province, etc.
- Socio-economic status of target group — informal sector workers, people from poor communities, or higher-income groups who use subsidized services
- Religion or ethnicity of target group
- Age of target group — children under five, elderly
- Health status of target group — HIV/AIDS patients, pregnant women

Once the target group is defined, further study is required to understand why this segment of the population behaves as it does. Non-users may not seek the service because of lack of knowledge about health benefits, limited willingness or ability to pay, lack of knowledge of providers, or low non-clinical quality (difficulty accessing providers, inconvenient hours, rude staff). People who could afford to pay may choose to use subsidized public services out of convenience or habit, lack of knowledge about private providers, or because they are unwilling to pay. In addition to interventions to address private or public sector supply of services, policies and interventions to influence consumer behavior are often necessary to achieve health goals.

Synthesis of Market Information

All the market factors must be considered simultaneously as they are inter-related, and they must be considered in conjunction with the government objectives. In many cases, findings about providers will lead to further information requirements about consumers, or consumer-focused interventions. The table on page 6 provides a framework for analysis of the various market factors. After all the factors are considered and specific obstacles to achieving government objectives are identified, intervention strategies can be designed to overcome the obstacles.

Selection of Intervention Strategies

If it is determined that private providers have advantages in terms of access, quality, or efficiency, then interventions that remove barriers or provide incentives to private providers serving the target consumers would help achieve government objectives. Government interventions can encourage private providers of the priority service to deliver to the target population, or, conversely, encourage those private providers currently serving the target population to provide the priority service. The government may also want to undertake interventions aimed at changing the behavior of the consumers. It is important to set clear objectives so that strategies can be measured according to their contribution to the objectives.

The challenge is to consider all the alternative strategies and to assess which of those would be most effective — most likely to produce the desired outcome at the least cost. A successful strategy must be appropriate for all conditions in the market. Most likely, a combination of two or more strategies will produce much better outcomes. For example, a strategic approach for reaching non-users may include training providers who are accessible for non-users, contracting with those providers to deliver the service, and conducting an education campaign to increase consumers’ awareness of the benefits of the service and the available providers. These three interventions together address all the market obstacles blocking the achievement of the health objective, and are much more likely to produce the desired outcomes.

After analyzing the market for priority services, some obstacles identified may be:

- Private providers do not deliver the service because they lack training
- Private providers deliver services to the target market but services are of substandard quality
- Private providers do not provide the service because they lack inputs (equipment/supplies)
- Private providers have no financial incentives to deliver the service
- Private providers who deliver the service are not in the same locations as the target consumers

Public Providers

If it is found that public providers are more accessible and efficient, and provide higher quality services, then working with private providers is not the best way to improve or expand service delivery — concentrating on improving and expanding public sector services would be more effective.
f. consumers do not seek service due to lack of knowledge of benefits or ability to pay

g. consumers do not seek service due to unwillingness to pay

h. consumers do not seek service due to low non-clinical quality (inaccessible, rude service)

i. consumers do not use private providers due to convenience or habit

j. consumers do not use private providers due to lack of knowledge of providers

k. consumers do not use private providers due to unwillingness to pay
Depending on the obstacles identified and the government objectives, a variety of interventions may be appropriate:

1. **Training and/or certifying private providers (alleviate obstacles a, b, j).** The government may wish to train private providers who currently do not provide the service, thus expanding the number of qualified suppliers. In many countries, the delivery of priority health services is limited to a specific cadre of health professionals. For example, traditional birth attendants may be an integral part of many communities and serve women of reproductive age, but they have no formal training in family planning. Providing training to these providers may eliminate missed opportunities for family planning delivery.

A market analysis may find that private providers deliver the service to the target population, but the clinical quality is substandard and so the service does not have the full health impact. An appropriate government action may be to train those providers who currently deliver the service but lack adequate or up-to-date skills. In addition, the government may choose to certify providers who meet the minimum quality requirements in order to raise quality standards and to inform consumers about qualified providers.

2. **Ensuring private providers have access to necessary supplies (alleviate obstacle c).** If the necessary equipment or supplies are costly and private providers are unwilling or unable to invest such resources, then the government can lower the cost by providing free or subsidized supplies or reducing taxes on supplies. Private providers may not offer immunizations simply because they do not have a refrigerator to store the vaccines or do not know where to purchase the vaccines. Private providers may be willing and able to pay for supplies, but simply do not have a reliable or convenient source of supply. In this case, identifying and establishing suppliers may be the only intervention required to facilitate private providers delivering the service.

3. **Contracting with private providers to deliver the service (alleviate obstacle d, f, g, h, k).** Contracting refers to a mechanism for “hiring” private providers to deliver the service, through a formal agreement specifying payments for services. Contracting with private providers may provide the necessary financial incentive for providers to deliver services to the target population if users are otherwise not able to pay an acceptable price. Contracting with private providers can also lower the cost of service delivery if they are more efficient than public providers, thus producing savings for the government.

If consumers do not use the service due to inaccessible providers or low non-clinical quality, encouraging use of private providers (contracted by the government at no additional cost to the consumer) who offer higher quality may be an important solution. Non-users may be more likely to use the service if it is more accessible, convenient, and available in a more attractive facility.

4. **Encouraging private providers to locate within reach of the target population (alleviate obstacle e).** Market analysis may find that users want the service and are willing to pay for it, but do not have easy access to providers. If private providers are more efficient or offer higher quality services than public providers, then the government may wish to provide incentives to private providers who are willing to locate close to the target population. Incentives may take the form of subsidies (free or low cost equipment, supplies) or service delivery contracts.

5. ** Undertaking education efforts aimed at changing the behavior of consumers (alleviate obstacles f, g, i, j, k).** This type of intervention is most appropriate to educate consumers who do not understand the benefits of the health service, or are unwilling to pay for it, unaware of where to obtain the service, or unaware of its availability at private providers. It may be effective to include private providers in the education effort, if they have advantages in communicating effectively with the target groups.
If consumers are willing and able to pay for services offered by private providers but fail to do so simply due to habit or lack of knowledge, then public education combined with lower subsidies (higher prices) at public facilities may be part of the solution. An assessment of the provider market may find that private providers are not offering the service for various reasons, which must be addressed in different ways. An education and communications campaign targeted at users who are unwilling to pay can convince them of the value of the service.

6. Increasing subsidies to encourage non-users who are not able or willing to pay for services or to ease the burden of costs for current users (alleviate obstacles f, g, k). While education efforts may increase users’ willingness to pay, some portion of the target population may still be unwilling or unable to pay for services. In this case, increased government subsidies may be necessary to encourage people to use the service. Some issues around increasing subsidies include designing mechanisms for distributing the subsidies only to the targeted group, and selecting providers who would deliver such subsidized services.

**Pharmacists in Romania**

In order to increase family planning awareness in Romania, a program was initiated in October 1996 to educate young adults about modern contraceptive methods and to advise them of the availability of contraceptive services at commercial pharmacies. In addition to a national media campaign, pharmacists were trained in contraceptive technology and client care. A contraceptive technology guide was distributed to 3,000 private pharmacists to be used as a reference tool to better advise their clients. This two-pronged approach was used effectively to increase family planning awareness.

**Overall Market Interaction**

In addition to conditions shaped by consumer or provider behavior, public sector programs and policies also impact on the private market for health services. Government policies designed to address one objective may adversely impact other objectives or impede the development of an efficient private sector. Effective health systems depend on the interaction of different policies and development of a coherent sector-wide strategy, and not just on the effectiveness of any single government policy or program.

As an example, in an effort to maximize usage, many countries provide family planning services free of charge or at a very low cost at public health facilities. In order to address budget constraints, government may wish to encourage use of unsubsidized private providers, thus lowering its costs. But it is difficult for private providers to be profitable competing with free providers, thus private sector activity is likely to be inhibited as long as the government provides free services. Lowering subsidies, or raising fees at public facilities, lowers barriers to private sector activity, while generating additional funds for the health sector.

At the same time, the government cannot focus solely on raising fees or encouraging the private sector without first considering consumers’ ability or willingness to pay for family planning. If many consumers are unwilling or cannot afford to pay the higher fees, they may choose to forego services. An education campaign may be able to convince some users of the value of the service. Depending on the percentage of consumers who cannot pay, it may be effective to target subsidies to them. But, if it is found that a great majority of users would no longer seek the service if it were unsubsidized, then encouraging use of unsubsidized private providers, without first addressing consumer behavior, does not serve government objectives and would have negative health consequences.

This example illustrates how focusing solely on increasing coverage or encouraging use of unsubsidized private providers without analyzing the overall market can lead to negative health results. In most cases, neither the public nor private sector can be ignored. Failure to consider consumer behavior and consumer-related interventions can also jeopardize results. A balance of public and private sector strategies, in combination with consumer-based interventions, is needed.

**Implementation Challenges**

In addition to setting objectives, analyzing the market, and selecting intervention strategies, assessing whether to work with the private sector requires consideration of the implementation challenges and costs. Accurate projections of
implementation costs are required to determine whether working with the private sector is the most cost-effective way to achieve government objectives.

Even a well thought-out strategy will not be successful without the appropriate mechanisms to support smooth implementation. Successful implementation of any new program requires significant resource investments, but often the required investment is underestimated, leading to implementation problems and disappointing results. Two key implementation issues are government capacity constraints and transactions costs.

Lack of capacity leads to ineffective implementation of otherwise promising strategies. Even a simple policy of providing training to private providers, a type of activity that governments are accustomed to, can prove to be a challenge. It can divert resources of a fairly meager health system from other high priority activities. Developing an appropriate curriculum, committing trainers to the activity, and providing transport and other logistical support are substantial inputs.

Capacity issues are particularly acute when the government is carrying out a new activity, such as contracting with private providers. A whole new set of skills is required, such as ability to negotiate and develop an enforceable contract, to maintain accurate accounting and management information systems, and to monitor the services delivered by private providers. Some minimum patient identification procedures and electronic information systems are required to be able to prevent and identify fraud, such as a provider billing for services not delivered. Such skills are not generally prevalent among public health officials, and such systems are not generally in place in developing countries. Furthermore, in many cases, the underlying legal and regulatory system does not allow for effective enforcement of contracts.

In addition to the increased capacity issues, ongoing transaction costs must be taken into account when assessing whether new activities with private providers are cost-effective. Such transaction costs may include processing of bills from providers, periodic supervision of service delivery, and audits of providers. If ongoing administration of activities is not effective, it can eliminate any efficiency gains from working with private providers.

Contracting Out Hospital Services in South Africa
There has been extensive experience contracting out for hospital services in South Africa. A study comparing the efficiency of contracting out with direct public provision found that, where government provision is inefficient or capacity insufficient, contracting out can be an efficient mechanism for service provision. This study found that in practice, however, the government’s lack of information of its own production costs, information on the competitive conditions in the market, and capacity to negotiate and monitor contracts resulted in inefficiencies. Even though the costs of service production were lower at the private hospitals, the savings were offset by longer lengths of stay due to lack of appropriate incentives in the service contract.

The government can increase the efficiency of its activities with private providers (lower transactions costs), if it can identify capable and motivated partners. For instance, if rural private practitioners are all members of a professional association, then the association can play an important role in the management and oversight of its members. Transaction costs are generally lower if the providers are large and organized. An example might include a well-managed NGO network, whose facilities are accessible to 10 percent of the population. Working with the network NGO would be more efficient than working with individual practitioners to cover 10 percent of the population.

Indonesian Midwives Association
The Indonesian National Family Planning Coordinating Board together with the Indonesian Midwives Association (IBI) and Bank Rakyat Indonesia operate a loan fund for private midwives in five provinces. Midwives can access loans to establish new practices or to refurbish and improve existing practices. IBI plays a critical role in this program by disseminating information about the loan fund to its members, assisting midwives to apply for loans, and supervising usage of the funds. Without the input of a strong partner, this program would not be feasible for the government.
Implementation issues are an integral part of the decision to work with private providers. The associated capacity constraints and transactions costs must be considered from the onset in order to provide an accurate assessment of the cost-effectiveness of alternative strategies. Not taking these costs into consideration from the beginning can lead to disappointing results. One scenario may find a government contracting with private providers because of their lower costs. After two years of operation, it is found that once accurate administrative costs are added to the scenario, contracting with private providers is actually costlier than service delivery through the public providers.

Lessons Learned from International Experience

There is no specific approach for working with private providers that is a guaranteed success. Even the strategic decision-making approach outlined here can only serve as guideline for analyzing all the conditions that must be factored into the decision. Key lessons learned from past experiences include:

- Set clear objectives and prioritize them in order to develop appropriate intervention strategies and criteria with which to evaluate these strategies.
- Identify and capitalize on the relative strengths of the public and private sector: Is the private sector more efficient? Does it offer higher quality? Is it more accessible?
- Design programs with public or private providers based on their effectiveness, and not on preconceived biases toward government responsibility to provide health services or private sector efficiency. Work with private providers when it is the most cost-effective way to meet objectives.
- Be open to working with unconventional groups of providers (such as traditional birth attendants), if they have unique qualities — more accessibility to the consumer, moral authority in rural areas. Often such providers are respected and trusted community members.
- Develop a strategy incorporating a package of complementary interventions designed to address the specific local conditions. Avoid preconceptions and imported strategies.
- Consider the overall market effect of all policies. Regardless of the strategies pursued or the types of providers involved, neither the public nor the private sector can be ignored. Consider the impact on all providers and on consumer behavior.
- Design programs that are in line with the management capacity and resources available. Consider not only the initial start-up costs, but also the ongoing implementation costs.

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