

Government contracting in health

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The field of government contracting

- ▶ The grand question in India: low state capacity
- ▶ Within this, weaknesses of 'foundational processes', these are domain neutral, e.g. human resources, finance.
- ▶ Within this, government contracting
- ▶ In recent years, we have been working in this field.
- ▶ Have built a literature,
<https://xkdr.org/field/public-procurement>

Government contracting in the field of health

In this talk, we look at 3 activities of the Indian state in the field of health care, through the lens of contracting:

1. Drugs
2. Health care services
3. Research.

Drugs

Juxtaposition of weak drug quality regulation + weak government contracting

- ▶ When the two problems come together, it induces difficulties.
- ▶ Many state buyers do no drug quality testing; often this is assumed to be done.
- ▶ Some early evidence: 10% of drugs in the public sector are sub-standard while the corresponding number is 3% in the private retail system.

The time dimension

- ▶ When government contracting works poorly, there are delays
- ▶ Worse, the delays are unpredictable
- ▶ Smooth operation of health care facilities is disrupted owing to shortages
- ▶ These arise from several infirmities of the government contracting process and framework.



Who tries to sell the government?

- ▶ India has some remarkably good drug companies
- ▶ These are generally focused on the export market
- ▶ Within India, Drug Price Control Order hinders possibilities
- ▶ Selling to the government is a distinct sub-culture.
Those who supply are the firms that understand and know how to operate with the difficulties of government contracting.
- ▶ Consequences: These firms may not have the best quality characteristics, and competition is reduced.



We see four pathways to do better:

- ▶ Better process manuals for how a government organisation buys drugs
- ▶ Establish measurement systems to watch the purchase operation in action, and establish feedback loops both for management control and for improvement of the manuals
- ▶ Government buyers should do randomised testing, not assume that drug quality regulation is working
- ▶ At present private firms are given a “death sentence” when any thing goes wrong.
Instead, a system of graded sanctions which reshape the incentives of private firms.

Metrics: There should be a larger range of private supplier firms, variation in and delays should go down, quality should improve.

Health care services

The public system as a health PSU

- ▶ Government hospitals are a large health PSU
- ▶ Large number of facilities, managed in the same ways
- ▶ Many difficulties
- ▶ So the natural idea is: Can we get better price / quality through purchasing?
- ▶ This has started at a large scale through NHA

Can be many difficulties

- ▶ How to do price discovery at the level of one procedure e.g. a root canal surgery? (and there are probably 100 important procedures that have to be purchased).
- ▶ How to measure / regulate quality? Private providers can readily produce at low levels of quality
- ▶ How to detect and control fraud?
- ▶ Public finance dimensions: Potentially involves vast amounts of money, run the risk that producers don't get paid when the budgeting has not been done.

If done poorly, there will be a narrow set of private firms that sell to the government; better process firms will tend to avoid government.

- ▶ NHA needs to build the expertise and structure of a contracting organisation
- ▶ Process manuals, MIS systems, research with this data, feedback loops
- ▶ Metrics: After a heart surgery, did the person get re-hospitalised in N weeks? When did the person die?
- ▶ Get better through doing government contracting again and again, with sound feedback loops.

Research

Free-riding vs. unique Indian questions

On most questions, India learns and uses health related R&D done worldwide. We benefit from positive externalities in India. But there are many situations where this will not work:

- ▶ Tropical diseases; there is under-investment worldwide
- ▶ Uniquely Indian questions
e.g. Diabetes is amply studied worldwide but diabetes + anaemic women is a uniquely Indian problem
- ▶ E.g. ICUs with ventilators are rare in India, so what's the optimal protocol for Covid patients facing respiratory distress?

Market failure, innovation policy

- ▶ For the areas where free riding is infeasible, standard market failure reasoning works
- ▶ Self-interest will induce under-investment in R&D
- ▶ Knowledge is a public good, producer cannot capture the full gains
- ▶ Thus there is a case for public resourcing.

Indian Health Policy In The Light Of Covid-19: The Puzzles Of State Capacity And Institutional Design, Ajay Shah, India Policy Forum, 2020.

Make vs. buy

Two ways to do this:

Make Hire scientists as civil servants, or

Buy Contract-out to external R&D organisations: government universities, private universities, private firms, persons outside India.

Almost all Indian public funding for science goes through make.

Pros and cons of buy

- ▶ The benefits:
 1. State can fund multiple rival pathways for research
 2. Competition will elicit better work
 3. Unfolding of risk-taking in research
 4. A private sector which has the values of risk-taking, creativity, innovation, drive to excel.
 5. Examples: in the US, NIH “grant and review system”.
- ▶ The difficulty: If there is no possibility of failure, it’s not research”:

When research contracts fail, how to deal with conventional government processes that are not geared for failure?

- ▶ Draw on the general techniques and expertise in the field of government contracting
Inter-disciplinary work, fuse the fields of health, innovation policy and government contracting.
- ▶ Establish new process manuals
- ▶ Establish steps in the process which induce protection against the agencies, else civil servants will not contract-out
- ▶ Likely that this is mostly compatible with GFR, but might require small modifications in it

Summary

- ▶ State intervention can come in the form of make, buy or regulate.
- ▶ By and large, there is a lot of “make” in the Indian state in the field of health
- ▶ As the process of contracting gets better, policy makers will optimally shift in their emphasis in favour of Buy.
- ▶ How can we make progress for the field of health?

Thank you.

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