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## Addressing the Need: Lessons for Service Delivery Organizations on Delivering Contracted-Out Family Planning and Reproductive Health Services



**PRIMER**

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**SHOPS**

Strengthening Health Outcomes  
*through* the Private Sector

**Summary:** This primer aims to provide clear lessons and recommendations to help service delivery organizations and program managers establish, implement, and strengthen contracting arrangements. The primer draws on Marie Stopes International's experience of delivering government-contracted services in Bangladesh, India, and South Africa. The lessons and recommendations in this primer are limited to MSI programs that involve formal contracts. This primer serves as a companion to *Filling the Gap: Lessons for Policymakers and Donors on Contracting Out Family Planning and Reproductive Health Services*.

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**Project Description:** The Strengthening Health Outcomes through the Private Sector (SHOPS) project is USAID's flagship initiative in private sector health. SHOPS focuses on increasing availability, improving quality, and expanding coverage of essential health products and services in family planning and reproductive health, maternal and child health, HIV/AIDS and other health areas through the private sector. Abt Associates leads the SHOPS team, which includes five partners: Banyan Global, Jhpiego, Marie Stopes International, Monitor Group, and O'Hanlon Health Consulting.

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## Addressing the Need: Lessons for Service Delivery Organizations on Delivering Contracted-Out Family Planning and Reproductive Health Services

Governments from both developed and developing countries contract private sector health providers to deliver family planning and reproductive health (FP/RH) services. Marie Stopes International (MSI), one of the largest international family planning organizations in the world, is contracted by governments to deliver FP/RH services in Bangladesh, India, Mali, South Africa, Tanzania, United Kingdom, and other countries worldwide.

Contracting private providers to deliver FP/RH services enables governments to harness the high quality, reputation, and efficiency of the private sector while strengthening public sector offerings and improving access to services. For example, contracting with private providers fills gaps in service coverage, especially in areas where government provision is inadequate (Palmer 2000) and in areas populated by predominantly poor or underserved populations (Liu et al. 2004; McIntyre et al. 2005).

Ideally, government contracts result in a win-win scenario through which all stakeholders benefit. Contracts allow governments to successfully improve public sector shortcomings as private providers improve access to FP/RH services. In the process, private providers subsequently enhance their reputation among clients, governments and donors, and clients receive better services. To achieve these win-win scenarios, it is essential that the key lessons and emerging practices of private providers, currently contracted by governments to deliver FP/RH services, are identified and shared with other service delivery organizations (SDOs).<sup>1</sup>

This primer aims to provide clear lessons and recommendations to help service delivery organizations and program managers establish, implement, and strengthen contracting arrangements. It draws on Marie Stopes International's experience of delivering government-contracted services in Bangladesh, India and South Africa. The lessons and recommendations are limited to MSI programs that involve formal contracts. "Relational" contracts—less formal agreements between governments and SDOs that are sustained by trust and mutual benefits (Palmer 2000)—represent a minority of MSI's contracting-out arrangements in the three countries represented. Relational contracts can create uncertainty regarding funding and may be terminated with little recourse to formal appeal, arbitration or compensation. It is recommended, therefore, that SDOs formalize long-term contracts with governments as often as possible.

*This primer draws on Marie Stopes International's experience of delivering government-contracted services in Bangladesh, India and South Africa.*

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<sup>1</sup> For the purposes of this paper, SDOs refers to commercial and nongovernmental service providers.

This primer serves as a companion to *Filling the Gap: Lessons for Policymakers and Donors on Contracting Out Family Planning and Reproductive Health Services*, which was originally developed by the Private Sector Partnerships-One project and updated by the SHOPS project. The primer for policymakers is a tool for country-level decisionmakers and contract-operation managers. In contrast, the primary purpose of this primer is to support SDOs that are currently implementing or considering entering formal contractual relationships with governments to deliver FP/RH services in developing-country settings.

The primer for policymakers identified five types of contractual relationships: contracting out, contracting in, grant, franchising, and leasing. This paper focuses upon contracting out. It provides practical advice to SDOs on key aspects of contracting out, including relationship building, contract design and implementation.

## What Is Contracting Out?

This primer defines contracting out as:

An arrangement in which the government enters into a legal partnership with a private provider for the delivery of goods and/or services to the government or to a designated third party on behalf of the government, and where provision/production takes place outside public facilities.

Two different scenarios fall under this definition:

- (1) The government contracts with SDOs in areas with no public facilities
- (2) The government transfers management of care from its own facilities to SDO facilities in the same area.

## The Rationale for Contracting Out

Governments and SDOs often have distinct strategic objectives and reasons for participating in a contracting arrangement. For example, some SDOs may want to increase income or strengthen their reputation or influence while some governments may simply want to reduce costs.

SDOs that are planning to bid for a government contract should carefully assess a government's objectives for contracting out FP/RH services and ensure that they are compatible with the SDO's goals and priorities. Ideally, a government contract should present a win-win scenario through which governments and SDOs are able to achieve shared goals. Based on MSI's experiences, as well as on interviews with government representatives in Bangladesh, India, and South Africa, the following reasons for forming contracting-out relationships often represent win-win scenarios for governments, donors and SDOs:

### **To improve access to and the coverage of FP/RH services**

Contracting SDOs to deliver FP/RH services is often seen by governments and donors as a quick and simple solution to gaps in the coverage of public sector services, especially in areas that have inadequate public services and private providers are already delivering FP/RH services (Palmer 2000).

The importance of contracting out FP/RH services to fill gaps in service coverage is supported by anecdotal evidence taken from interviews with government health officials in South Africa. The officials explained that the government's main rationale for contracting out FP/RH services is that it is not viable for the National Department of Health to provide these services nationwide: the country is too large, it lacks a sufficient number of trained public sector service providers and has too many people requiring FP/RH services in remote areas with no public sector clinics. Given that the objective of most SDOs is to reach under-served populations, they are typically well placed to address this issue. As a district hospital superintendent in India put it, "At the grassroots level, [SDOs] are nearer to the community so they are more effective: the benefit goes to the public."

For many SDOs, delivering high quality FP/RH services to large numbers of very poor and underserved families and individuals is a key motivator because it provides a powerful means of achieving organizational goals. Improving the access of underserved populations to FP/RH services can be achieved by (1) establishing contractual arrangements that specifically serve the poor and marginalized; (2) establishing contractual arrangements in areas peopled by predominantly poor or underserved populations; and (3) including FP/RH services in contracting-out arrangements that would be of most benefit to the poor and underserved (Liu et al. 2004).

### **To improve the quality of FP/RH services**

Publicly funded health care facilities in many developing countries are overstretched, lacking a sufficient number of trained staff and the capacity to provide high quality FP/RH services (Liu et al. 2008). On research visits to South Africa and India, government hospital staff working at overcrowded facilities explained that they lacked the capacity to cope with demand and suggested that clients were able to access better quality services—as measured by shorter waiting times, improved client care and better-trained staff—at health facilities run by SDOs that specialize in providing FP/RH services.

### **To deliver culturally sensitive services**

Contracting out culturally sensitive FP/RH services (e.g., delivering FP/RH services to adolescents or offering sterilizations) may help shield governments from any controversy surrounding such services (Rosen 2000). While considered controversial in some contexts, such services are part of many SDOs' core businesses. As a result, SDOs such as MSI are adept at handling any political and cultural intricacies affecting the delivery of these services. By delivering these services, SDOs successfully improve

*"In Bangladesh as a whole, institutional delivery [of FP/RH services] is around 18 to 19 percent... whereas in the [contracted out] project area... it is about 32 percent..."*

*An important element of the program is [to serve] the floating [homeless] population. NGO workers are addressing these people, whereas government workers may not address them—government workers address the households."*

Representative of the  
Asian Development Bank  
(project donor for the Urban  
Primary Health Care Project,  
Bangladesh)

the access of underserved populations to a broader range of effective services than would otherwise be available, and governments strengthen FP/RH service provision. As a result, clients obtain better FP/RH services.

**To improve the cost effectiveness of public sector health expenditure**

The cost effectiveness of service provision is often cited as a key motivation for governments to contract out FP/RH services, especially in remote areas. Evidence from MSI's programs in India and South Africa on whether contracting out FP/RH services generates cost savings for national governments is mixed. A simple cost analysis from Population Health Services' (PHS)<sup>2</sup> clinics in India, for example, suggests that contracting out FP/RH services to SDOs may not generate significant cost savings (see table). However, this simple comparison omits the value added by SDOs in, for example, client satisfaction and high quality care.



Peter Canton

*A young woman seeks medical help in Dayapur, India.*

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<sup>2</sup> Population Health Services is an affiliated partner of MSI.

## Costs to the Indian government of contracting out sterilization services versus the cost of providing sterilization services in government facilities

Cost in Indian Rupees (U.S. Dollars)*				
	Female sterilization		Male sterilization	
	Cost of contracting out	Cost of provision in government facility	Cost of contracting out	Cost of provision in government facility
Fee for "motivator"	150 (3.37)	150 (3.37)	200 (4.49)	200 (4.49)
Payment made to PHS <sup>♦</sup> (PHS may choose to subtract 600 rupees from this to pay as compensation to the client)	1,350 (30.31)	-	1,300 (29.19)	-
Compensation to client (e.g., for loss of earnings during recuperation)	-	600 (13.47)	-	1,100 (24.70)
Medicine	-	100 (2.25)	-	50 (1.12)
Surgeons	-	75 (1.68)	-	100 (2.25)
Staff nurse	-	15 (0.34)	-	15 (0.34)
OT technicians	-	15 (0.34)	-	15 (0.34)
Refreshment for client	-	10 (0.22)	-	10 (0.22)
Camp arrangements (logistics)	-	10 (0.22)	-	10 (0.22)
Other	-	25 (0.56)	-	-
<b>TOTAL PER SERVICE:</b>	<b>1,500 (33.68)</b>	<b>1,000 (22.45)</b>	<b>1,500 (33.68)</b>	<b>1,500 (33.68)</b>

Note: None of the figures compensates for overhead or hidden costs such as electricity, maintenance and depreciation of equipment, etc.

\*Exchange rate August 4, 2011.

<sup>♦</sup>Each female sterilization costs PHS up to 1,600 Indian rupees and each male sterilization costs approximately 1,850 Indian rupees.

In contrast, health officials working in Mahatma Gandhi Hospital in Durban, South Africa, estimated that the government's contracting out agreement with MSI represented a cost-effective strategy. On the basis of the number of women referred to MSI's Durban clinic under the existing cost-per-client agreement, health officials estimate that the average monthly cost to the government of contracting out services to MSI is approximately 35,000 South African rand (\$5,107<sup>3</sup>). If the government provided the same services, the health officials estimate that the same amount of money would cover only the basic salaries of three Grade 1 nurses with nothing left to cover the cost of additional clinical staff, materials, or overhead (see Contract Design, Implementation, and Management).

## Rationale for Contracting Out and Recommendations for SDOs

FP/RH services are contracted out for a number of reasons:

- To improve access to and the coverage of FP/RH services
- To improve the quality of FP/RH services and health outcomes
- To deliver culturally sensitive services
- To improve the impact and reach of public sector health expenditure

Recommendations:

1. SDOs need to identify and understand the main factors motivating a government to contract out FP/RH services. Assessing the government's motivating factors will provide SDOs with the best possible chance of winning a government contract.
2. SDOs should assess the government's objectives for contracting out FP/RH services to ensure they are compatible with the SDO's goals and priorities.
3. SDOs should demonstrate that they are well placed to meet the government's objectives for contracting out FP/RH services.

## Preparing for a Bid to Provide Contracted-out FP/RH Services

Preparing a bid to provide contracted-out services requires SDOs to have a thorough and contextual understanding of each country's cultural, political, and financial situations, as well as being aware of the government's objectives for contracting out FP/RH services. This would include knowledge of the "hard" data related to budgetary constraints, service targets and the cost obligations of the bid requirements, as well as the "soft" skills, which help SDOs identify the motivation and expectations of key government stakeholders for contracting out FP/RH services.

The process involved in a bidding opportunity must also be analyzed. Governments contract out FP/RH services using one of two main mechanisms:

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<sup>3</sup> Exchange rate August 4, 2011.

- **Competitive bidding (tendering):** through which SDOs submit bids and are selected to provide contracted-out FP/RH services on the basis of predetermined technical and cost criteria.
- **Sole-source awards:** through which the government identifies and approaches a particular SDO to deliver contracted-out FP/RH services on the basis of the SDO's perceived expertise and capacity. In India, for example, PHS accepted an invitation by the government to deliver a number of contracted-out FP/RH services for which the government did not undertake a formal tendering process.

For either mechanism, SDOs must be aware of when contracting-out opportunities arise and know the eligibility criteria for bidding; they should understand the legal requirements and their capacity to meet them.

If the decision to bid to provide contracted-out FP/RH services is taken, the SDO must consider two things. First, how can the organization make itself attractive to the government and to donors? Second, on what precise terms is the SDO prepared to enter into a contract? If the bidding process takes an organization away from achieving its strategic goals, SDOs should not be afraid to reconsider the decision to bid. The head of MSI's program in Bangladesh, for example, recognized the importance for SDOs to "not bid for the sake of bidding."

MSI's experiences and interviews with government representatives in Bangladesh, India, and South Africa suggest that the following are critical considerations for SDOs preparing and positioning for a bid to provide contracted-out FP/RH services. Several of these considerations are particularly important when the government utilizes sole-source awards.

### **Can the SDO meet the government's objectives for contracting out FP/RH services?**

SDOs should work to be known for offering something the government needs, for example, an expertise in reaching a particular target group and/or delivering a particular FP/RH service, as well as having a reputation for delivering high quality services.

Delivering high quality services or reaching underserved populations are typically top priorities for SDOs and are integral to the mission. However, it is important that SDOs are able to present credible evidence to governments and demonstrate that priorities are being achieved. Client-satisfaction surveys, for example, may be used by SDOs to ensure that high quality services are being delivered and to demonstrate this to governments.

### **Does the SDO need government authorization and certification to deliver contracted-out FP/RH services?**

There are many procedures and processes associated with gaining the authorization or certification necessary to qualify for a bid to provide contracted-out FP/RH services. Thus, adequate preparation is critical.

SDOs must examine all available bidding information and government procurement policies, establish clear requirements, and ensure all relevant criteria are met—bearing in mind that obtaining the relevant approval/authorizations can take a long time.

**What relationships with government personnel does the SDO need to build and/or maintain?**

Strong relationships with key government personnel are crucial. The logic is simple—good relationships provide a better understanding of the government’s needs, they improve the chances of meeting those needs, and they help assure the likelihood of a prompt response to any queries. They also pave the way for a smoother bidding process.

Regular liaison and networking with the government is often required to keep contracted-out FP/RH services functioning smoothly. This is particularly the case when there is a high turnover of government personnel—a common issue in the health sector in many developing countries. MSI staff in India and Bangladesh noted that the high turnover of government staff makes the maintenance of key relationships with government counterparts difficult.

Incoming staff are often unfamiliar with the needs of both the clients and the SDO. As a result, relationship building is repeated every time an important contact moves on. This creates a considerable burden for SDOs. In addition, turnover affects the government’s understanding of a project, necessitating continual work to rebuild lost management capacity. Government officials are not always responsive to such efforts, and managing requests from governments can become difficult: there is the occasional need to respond to abrupt unilateral government decisions that can significantly impact contracted services.

Given that most SDOs have capacity limitations, it is important to be strategic about relationship building. One challenge identified by PHS is the difficulty in maintaining relationships with—and access to—key government stakeholders. Government staff is often busy and unavailable as turnover may be high, and building relationships takes time and effort. One solution used by several MSI programs is the appointment of specialist staff to act as a liaison to government. In India, for example, PHS has employed retired government personnel in this role. Appointing a dedicated liaison, preferably with experience of government and/or donor systems, provides essential political context and an awareness of factors that may affect government contracts. Liaison personnel also help to maintain the commitment of key stakeholders.

*“I am a retired government officer. That is why they appointed me... I know the psychology of the [government] officer. We have to read what he wants, how he behaves... We [ex-government officials] know where to put the pressure.”*

Arvind Jha, PHS Liaison Officer

**Would a consortium or sub-contract strengthen the SDO's bid to provide contracted-out RH/ FP services?**

When awarding contracts for the delivery of FP/RH services, some governments look favorably upon SDOs that tender for a public-service contract as part of a consortium. This is especially the case when a wide set of specialist skills are required and/or the government is eager to reduce its transaction costs. Working jointly with other organizations also benefits SDOs by helping to fill vital gaps in capacity.

The extent to which it is desirable and feasible for an SDO to develop a consortium will depend to a large extent on:

- The time available to build the consortium
- The specificity of the FP/RH services to be provided
- The number of SDOs providing FP/RH services in any given area
- The degree of competition between possible consortium members

When building a consortium, it is important for SDOs to be clear about how working with others will help win a government contract and deliver contracted-out FP/RH services. Forming a consortium with other SDOs for the purpose of delivering contracted-out FP/RH services is, in many respects, like developing any other business relationship. A consortium requires a shared vision, good communications, sound policies and procedures, effective management systems, and a clear understanding of practical details and potential risks. Care must be taken to select the right SDOs to ensure that the skills and services offered by each member of a consortium are complementary, and that the value added by working together can be clearly demonstrated during the bidding stage. Critically, being involved in an effective consortium must not dilute the existing ethos, culture or the quality of the FP/RH services provided by each SDO.

Once consortium members have been selected, it is important to clearly define the various responsibilities of each party. The legal implications of the consortium must be considered, as well as how to mitigate risks. Any necessary safeguards should be in place in the early stages of building a consortium. A coordinating body could be designed and appointed to act as an organized focal point for facilitating interaction between consortium partners and the government. MSI demonstrated the value a consortium coordinating body can have in Bangladesh (see Case Study 1).

Similar principles apply when an SDO subcontracts particular parts of a government contract to another SDO. The details of the subcontracting relationship and any agreement between SDOs must be managed with the same care and attention to detail as the agreement between an SDO and the government described elsewhere in this primer. Performance criteria, roles, responsibilities, and the various approaches to monitoring and evaluation, sanctions and arbitration must all be clearly outlined. At the pre-bid stage, potential subcontractors should be vetted to determine what type of support they would require to deliver the necessary services

should they be subcontracted. If training is necessary for subcontracted SDOs, it is important to account for this in project plans and budgets.

In either scenario—working as a consortium or subcontracting tasks—it is important to realize that building relationships with potential “partners” is both time consuming and challenging. The strongest relationships are generally built over a period of months, if not years.

**What will the SDO consider to be a successful outcome of the contract to deliver FP/RH services?**

A simple question, but SDOs need to be very clear in advance as to what exactly will constitute a “success.” The SDO’s aims must remain clear within the organization, as well as externally. If the contract involves a degree of compromise to normal ways of working, staff must understand the potential benefits of the government contract. It is important that the strategic vision behind the contract is shared, and that a clear understanding is in place internally regarding what must be achieved to ensure that the SDO reaps the intended benefits of delivering contracted-out FP/RH services.

### Rationale for Contracting Out and Recommendations for SDOs

Preparing a bid to provide contracted-out FP/RH services requires SDOs to have a thorough understanding of the government’s motivations for contracting out RH/FP services. If the decision to bid is taken by an SDO, there are a number of critical factors to consider:

- Will the SDO meet the government’s objectives for contracting out FP/RH services?
- Does the SDO need government authorization and certification to deliver contracted-out FP/RH services?
- What relationships with government personnel should the SDO build and/or maintain?
- Would a consortium or sub-contract strengthen the SDOs bid to provide contracted-out RH/FP services?
- What will the SDO consider as a successful outcome of a contract to deliver FP/RH services?

Recommendations:

1. SDOs need to conduct thorough research into any opportunity to deliver contracted-out FP/RH services before submitting a bid. It is important to identify and plan properly for any budgetary constraints, legal requirements, service targets and/or cost obligations.
2. SDOs that decide to build a consortium or to subcontract services must carefully select SDOs with complementary skills and/or services.
3. SDOs that decide to build a consortium should consider designing and appointing a coordinating body to act as an organized focal point facilitating interaction between consortium partners and the government.

4. SDOs should not bid to provide contracted-out FP/RH services simply for the sake of bidding. It is important that SDOs identify clear reasons why delivering contracted-out RH/FP services would benefit the organization.
5. SDOs must ensure that credible and ongoing evidence is presented to governments, demonstrating that the services required by the government are being delivered.
6. SDOs should consider having team members dedicated to building and maintaining relations with key government personnel. These team members need to have a strong understanding of the inner workings of governments (and donors).

## Contract Design, Implementation, and Management

Limited government-contracting capacity may place a constraint on contract management processes. Weaknesses reported in the research for this primer include expertise in administration, management, monitoring and evaluation as well as with knowledge of the requisite government structures, such as contract management teams or units.

MSI's experiences and interviews with government representatives in Bangladesh, India, and South Africa suggest that the following components of contract design, implementation, and management often present particular challenges that SDOs need to consider when bidding to provide contracted-out FP/RH services.

### **The contract award process**

The process by which a contract is awarded, while often overlooked in planning, can be long, complex, and unpredictable. In South Africa, for example, MSI lost a regional bid to provide FP services but then won it when the SDO originally awarded the contract was unable to fulfill it. SDOs must factor in the unpredictability of contract award processes to avoid disruption to business planning.

SDOs must also ensure that proper certification (e.g., government-set quality standards of facilities and the registration of individuals with the government) is in place and approved by the necessary authorities. Obtaining the required certification may take a long time. Sometimes merely researching the relevant processes beforehand will facilitate progress. In India, for example, knowledge of the need to submit CVs for key staff, a step often overlooked by bidding SDOs, allowed PHS to prepare the paperwork in advance and expedite the certification process.

### **Contract administration and payment issues**

The rigidity of a government's administrative processes often slow projects down, with particularly damaging effects when disbursement or reimbursement of funds is affected. This issue is not, however, confined

solely to payment. Slow contract amendments and certification procedures, for example, also impact projects.

SDOs can attempt to forestall these problems through contract design, but the research for this primer suggests that the SDO's power to counteract government inefficiencies is often limited. Of greater value to SDOs would be the decision to plan for unavoidable delays and reimbursement issues, and to put internal systems in place to cope with the problems delays cause.

### **Inadequate cost recovery**

In addition to cash-flow delays, poor recovery of costs and consequent financial shortfalls could be caused by other deficiencies in a contract. It is important that the rate of reimbursement for the SDO adequately covers the cost of providing the contracted-out services. However, contracts resulting from undervalued bids, hidden and unexpected costs, and imposed changes to contract terms will result in inadequate cost recovery for an SDO, and could subsequently affect the delivery of FP/RH services.

### **Capacity for contract management**

An SDO should remain aware of its own capacity limitations, especially for low-earning contracts of short duration, which can place an administrative burden on the organization. A careful cost/benefit analysis needs to be conducted, including a frank assessment of the SDO's capacity and its commitment to implementing and managing the contract.

### **Monitoring and evaluation**

Once the SDO's obligations under the contract have been established, it is important to agree on a robust monitoring and evaluation framework so that the SDO has sufficient evidence to illustrate that the contract is being delivered as agreed. Roles and responsibilities for monitoring and evaluation, what measures will be used to deem the contract a success, what monitoring and evaluation techniques are used, and how data are communicated are all essential components of a monitoring and evaluation framework.

For the purposes of this primer:

- Monitoring refers to the routine tracking of contract-performance targets (where these have been specified). It involves checking progress against pre-determined objectives and targets, and identifies what is happening or has already happened. Monitoring can take place at all levels between donor, contractor, provider and sub-contractor, and also internally within each organization.
- Evaluation refers to the periodic assessment of a program's impact as a result of its activities.

High quality monitoring is particularly important for managing performance-based contracts whereby an SDO is reimbursed for

services it has provided. Without sufficient evidence, an SDO may not be able to demonstrate what services it has delivered and, as a result, it may not be reimbursed in full. In India, PHS signed several agreements containing clauses stipulating that the government would reimburse PHS 75 Indian rupees (\$1.68<sup>4</sup>) per intrauterine device (IUD) fitted at PHS's clinics. Although PHS was providing IUDs, it had received no money when research for this primer was undertaken. The government's audit procedures could not verify that PHS had delivered each service.

Robust monitoring is also important for SDOs in order to help maintain the quality of the FP/RH services being delivered, and to ensure client satisfaction.

The monitoring required will differ between contracts. For example, different government contracts will place emphasis upon different outcomes, including the impact of service provision, cost-effectiveness of the contracting arrangement, clinical quality of the service provision; and from the client's perspective, equity of the service provision. Therefore, data collected and the monitoring techniques used need to be tailored to the SDO's particular obligations under the contract. Ideally, any monitoring and evaluation conducted by SDOs will be incorporated into existing systems and procedures (and incorporate sub-contractors if and when this is appropriate) to prevent parallel systems from being developed, which might work to different timelines, or create an additional work burden.

Periodic evaluation of the contracted-out FP/RH services is also important for SDOs to demonstrate that FP/RH services have been strengthened. For example, conducting an end-of-project evaluation to demonstrate the overall impact of the SDO's services and any improvement on baseline data will help SDOs win more government contracts.

The degree to which governments monitor and/or evaluate contracted-out FP/RH services varies greatly. Differences were observed not only across the three focus countries, but also within each country. These differences depended on a range of factors, including the time and capacity constraints of local government staff responsible for monitoring, and government-reporting obligations to other authorities (such as donors). In Bangladesh, for example, monitoring requirements were relatively stringent. In South Africa and India, MSI was monitored only in terms of the number of services provided, not in terms of the quality of those services.

To insulate the monitoring and evaluation of contracted-out services against issues of capacity constraints, evaluation—particularly financial auditing—should be carried out by a reputable third party. This could incur additional expense, but the added confidence that comes with the use of a trusted auditing firm will prevent operational problems in the long run. If the government is unwilling to build this into the contract, service providers could consider funding the appointment of a trusted auditing firm unilaterally.

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<sup>4</sup> Exchange rate August 4, 2011.

### **Contract modifications**

Implementing a government contract will sometimes reveal flaws in the contract that need to be remedied to ensure the continued delivery of high quality FP/RH services. In anticipation of this, a clear system should be determined for negotiating and managing contractual modifications. This protocol should establish an acceptable procedure for making mutually agreed amendments to the contract, in writing, with both parties attempting, in good faith, to resolve matters without external arbitration if possible. Modifications may include the addition of new services, the provision of services in new sites, and changes in obligations and contractual terms.

### **The importance of arbitration clauses**

Arbitration clauses are essential. Even with the most thorough preparation, and despite every attempt to analyze the context of a contract and build in protection against financial and operational difficulties, things will occasionally go wrong. Sometimes such problems make it difficult to fulfill the contract without seriously exceeding planned costs. In such situations, and to ensure the continued delivery of high quality FP/RH services, a good contract stipulates clear methods of arbitration in periods of difficulty. If the necessity does arise to refer to an ombudsman or arbitration authority, the contract must be clear as to who that will be and how the appointment will be made. If arbitration is unsuccessful, recourse to the courts may be necessary and national law will decide any outcome. This could potentially be quite expensive, although no such examples were identified during the course of this research.

*Even with the most thorough preparation, ... things will occasionally go wrong.*

## **Contract Design, Implementation, and Management**

Several components of contract design, implementation, and management present particular challenges that SDOs providing contracted-out FP/RH services need to consider. For example:

- The contract-award process can be long, complex, and unpredictable.
- Government administrative processes can slow down key aspects of a contract (e.g., government certification).
- Contracts resulting from bids pitched too low by the service provider, hidden and unexpected costs, and imposed changes to contract terms can all result in inadequate cost recovery for SDOs.
- Inadequate monitoring and evaluation could limit the ability of SDOs to verify the services provided or demonstrate the impact of these services.
- High turnover among government personnel can undermine the government's commitment to contracting-out arrangements.
- Implementing a government contract will sometimes reveal flaws in the contract that need to be remedied to ensure the continued delivery of high quality FP/RH services.

Recommendations:

1. SDOs should thoroughly research the process involved for government certification, if required, and prepare all necessary paperwork in advance to expedite the certification process.
2. SDOs need to plan for delays caused by a government's administrative processes and put internal systems in place to cope as well as possible with the problems they cause.
3. SDOs need to implement robust monitoring and evaluation schedules to ensure the maintenance of high quality services and to demonstrate that they are delivering the services in line with contractual arrangements. The SDO should consider contracting an independent third party to conduct monitoring and evaluation so the objectivity and transparency of these activities is improved.
4. SDOs should ensure that contract-related monitoring and evaluation activities are aligned with existing internal processes to avoid the creation of parallel systems.
5. SDOs must ensure that all contracts stipulate a clear system for negotiating and managing contractual modifications, as well as provide clear methods of arbitration in periods of difficulty.

## What Can We Learn from MSI Country Experiences?

In preparation for the development of this primer, field visits to MSI programs in Bangladesh, India, and South Africa were conducted to gather evidence regarding MSI's contracting-out arrangements, to identify promising practices, and to examine any challenges faced by MSI's programs. In total, 15 semi-structured interviews and six focus-group discussions were conducted across the three countries with key stakeholders, including: country directors; project, finance and clinical staff; grant managers; and program-support officers. Government ministries responsible for family planning, other private sector service providers, and local government and donor representatives were also interviewed. Based on this information, the following case studies were developed. They highlight lessons learned from the MSI programs in delivering contracted-out services.

### **Case Study 1: Marie Stopes Bangladesh**

The Urban Primary Health Care Project (UPHCP) is a public-private partnership funded by the Asian Development Bank and other donors, which aims to deliver essential health and reproductive health services to people living in urban areas, especially the poor. The UPHCP first started in 1998; a second phase of the UPHCP commenced in 2005. The project currently covers all of the six city corporations of Bangladesh (Barisal, Dhaka, Rajshahi, Chittagong, Khulna and Sylhet) and five municipalities (Bogra, Comilla, Madhabdi, Savar and Sirajganj).

Marie Stopes Bangladesh (MSB) is one of 12 SDOs contracted by the government of Bangladesh to deliver primary health care including FP/RH services under the UPHCP. The government benefits by improving service quality and increasing its capacity to meet demand for FP/RH services. MSB decided to bid for this contract to support national health goals and to strengthen MSB's organizational capacity, linkages, and relationships.

#### **Dangers of bidding low**

Tendering processes for contracts are often competitive. Submitting a low bid in order to win the UPHCP contract left MSB with little financial headroom to absorb unexpected and hidden costs. Coupled with the effects of external factors like inflation, this meant MSB had to take loans from MSI funds to keep the project running. As the Bangladesh country director put it: "Bidding low comes back to haunt us now."

**Funding management:** The UPHCP has no overhead fund and so hidden costs were incurred, mainly in terms of time spent on the project by MSB staff. The contract committed the government to review finances according to inflation, but this did not happen. As a result, the project became more expensive over time. The government also changed the categorization of one of the contract's target groups in the project's second year to "the poorest." The number of people accessing free services rose rapidly and, as a result, this affected income projections. There were also some challenging administration issues: several salaries were raised, but only after the staff in question had already left. Additionally, the Project Management Unit, the team of Department of Health personnel tasked with managing the UPHCP, experienced delays in processing the project-mobilization fund. The procurement of essential commodities by the PMU was also very slow, resulting in insufficient medicines and sub-standard equipment and supplies, which compromised service quality. Disbursement of commodities was also inefficient, taking up to eight times longer than stipulated. No advance payments were allowed, so all costs were met initially by MSB using money loaned from MSI. MSB's ability to use MSI

resources ensured the program's success and service quality, but this flexibility is not likely to be available to smaller organizations experiencing similar problems.

**Relationship management:** In the first four years, there were four directors of the government team responsible for overseeing the UPHCP, all of whom arrived with a limited understanding of the health sector or of FP/RH services. More positively, the fact that MSB delivered a successful, high profile project strengthened MSB's opportunities for negotiation between project phases to fix identified problems.

**Assessment:** The UPHCP enables MSB to provide more and better services to clients living in urban areas, especially the poor. At the time of this writing, project donors, SDOs and the government were considering how to strengthen the UPHCP ahead of its third phase of implementation. The UPHCP's reach is to be expanded, and the model adapted to delegate more power to SDOs so they can operate more freely. The donor is also planning to act as a mediator between SDOs and the government, with more accountability for SDOs as a result.

### **Case Study 2: MSI South Africa**

Marie Stopes South Africa (MSSA) is one of the leading SDOs providing a broad range of high quality FP/RH services in South Africa. MSSA currently operates 37 clinics within all nine provinces of South Africa.

Since 2007, MSSA has had informal agreements with district government-run hospitals in two out of the nine provinces (Western Cape and KwaZulu-Natal) to provide specialized FP services to referred clients at one of four eligible MSSA clinics. In Western Cape, MSSA provides contracted-out FP services at its George clinic to clients referred from public hospitals within the catchment areas. In KwaZulu-Natal, MSSA accepts referrals from government-run hospitals at three out of eight of its clinics. Clients referred from a government-run hospital receive the required FP services free of charge. MSSA invoices the district hospital directly every month on the basis of the number of clients who have received a service from MSSA.

**Key motivations for contracting out FP services:** Contracting out FP/RH services helps the government to increase coverage of these services and ensures that the unmet needs of the population are met. The Department of Health has recognized that public services cannot meet the needs of everyone, given the size of the country and a lack of trained health care personnel. This is especially the case in very remote, rural areas, where the Department of Health has been unable to establish health care facilities.



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**The contract award process:** The contract tender and award process for MSSA's contracting-out agreements has varied across provinces and within provinces. For example, in KwaZulu-Natal province, MSSA was approached directly by one district government in 2008 to provide contracted out FP/RH services. The district government's approach came about because of MSSA's reputation for high quality service provision.

In contrast, another district government in KwaZulu-Natal Province placed a call for tender in a local newspaper. MSSA submitted a bid and won the contract to provide FP/RH services to clients referred to its Port Shepstone clinic. MSSA staff suggested that one of the key factors that helped MSSA win this contract was that it had prior authorization from the Department of Health to provide FP/RH services at this particular clinic. Other SDOs, which also entered the bidding process, did not have such prior authorization.

### Increasing client choice

"We are giving them [the clients] the choice (for this facility or that facility)... Combined, we will be more effective."

**Assessment:** MSSA has been able to increase the availability of FP/RH services. However, MSSA has found it difficult to obtain formal government contracts. For example, a formal contract with one district government in KwaZulu-Natal Province expired in 2007. MSSA is now delivering services for this district government under less formal contractual agreements, which could be terminated at any moment. This places both MSSA and the district government at potential risk and clients potentially without access to FP/RH services.

### **Case Study 3: PHS India**

In India, PHS provides contracted-out FP/RH services on behalf of the Indian government in four states: Andhra Pradesh (one district), Chhattisgarh (two districts), Madhya Pradesh (one district), and Jharkhand (eight districts). For the government, the main benefit to contracting out FP/RH services is to increase coverage and client choice, and PHS delivers contracted-out FP/RH services to meet the needs of underserved populations:

"... We want to increase the services, increase the clients ... to serve the people, not for any profit." (Technical Director, PHS India).

The government does not issue formal tender announcements. Contractual agreements were secured because of PHS India's reputation for high quality services and client care. Good relations with relevant district-level government staff were also vital: PHS India has recruited staff members, or liaison officers, dedicated to building and maintaining relationships with key government personnel. In some cases, these liaison officers are former government officials, bringing with them experience and insight into government systems.

PHS India is reimbursed per number of clients who receive services, and monitoring is rigorous (the government audits a minimum of five percent of services delivered per month) and regular (local government staff can undertake spot checks at any time, with no prior notice).

**Contract preparation and negotiation:** The contract award process in India may be lengthy. All facilities in which contracted-out FP/RH services will be provided must be certified by a district committee before any contractual agreement can be issued. In some cases, there is a checklist to follow, but usually the process involves teams of people individually inspecting the premises and equipment. In addition, PHS is obliged to verify the quality of its clinical staff by submitting CVs and bio-data forms to the chief medical and health officer or civil surgeon in each district for approval. Obtaining certification can take anywhere from two to six months, or even longer, depending on the district. The PHS India team reported that they often had to chase district committee members to move the process forward.

**Assessment:** PHS India has consolidated its experiences of contracting out, and now wants more government contracts so it can increase its services and the number of people reached. To achieve this, PHS is considering sub-contracting in the future, for which they perceive a need for better market positioning and to improve its relationships with other SDOs.

## CONCLUSION

Governments from both developed and developing countries contract SDOs to deliver FP/RH services. A key motivation for contracting out FP/RH services is to meet the staggering—and often unmet—demand for high quality and affordable FP/RH services.

MSI staff learned firsthand many of the challenges inherent in running government-contracted programs, some of the pitfalls to avoid, and some of the factors that increase the likelihood of success. Drawing on MSI's experiences in Bangladesh, India, and South Africa, this primer aims to provide practical advice to help SDOs and program managers to establish, implement and/or strengthen contracting arrangements. The lessons and recommendations in this primer focus on key aspects of contracting out including relationship building, formal contract design, and implementation.

While decisions about contracting will always be influenced by the political and operational context in which they are made, the following operational checklist (which represents the key lessons and recommendations of this primer) will be of use as a guide to SDOs and program managers engaged or about to engage in contracted-out services. Suggestions for additional reading are provided in the bibliography.

*A key motivation for contracting out FP/RH services is to meet the staggering—and often unmet—demand for high quality and affordable FP/RH services.*

## Operational Checklist

The following points are intended as a guide for SDOs and program managers engaged in or about to engage in contracted-out services. The points stem from the key lessons and recommendations identified in this primer.

### Contract preparation

- Do not bid for the sake of bidding. Conduct thorough opportunity/threat and cost/benefit analyses before entering the bidding process.
- Be clear about the organization's goals when bidding for and entering a contract.
- Do as much research and preparation as possible.
- Understand the political and operational context, as well as the drivers of donors and governments.
- Ensure that all necessary accreditations and paperwork are in place as early as possible, ideally before bidding.
- Be available and have a good presence on the ground.
- Cultivate good relationships with government and donors.
- Cultivate good, transparent relationships with other FP/RH SDOs. They are potential partners.
- Network as effectively as possible throughout the health sector.
- Behave in a politically sensitive manner at all times.
- Be prepared for the contract-award process to be slow and unpredictable.

### Contract and project design

- Ensure the contract is clear about each party's roles, what targets must be met and by whom, and when and how these will be evaluated.
- Ensure full independence in the contract, and make sure the organization's recruitment and management procedures remain under its exclusive control.
- Look hard at financing, including overhead and hidden costs.
- Ensure that the project includes sufficient income-generating activities.
- Design safeguards against unforeseen cost increases.
- Set the budget at a higher-than-minimum level.
- Factor in salary increases and inflation.
- Stipulate minimum salaries for service providers, and do not make compromises on salary and remuneration budget lines.

- Where possible, run projects with funds that are advanced before they are spent: projects based on a reimbursement approach are more likely to be problematic.
- Try to have control of how funds are utilized. Ideally, government should facilitate, not control.
- Predetermine sourcing of logistics. Centralizing procurement, though good in theory, often proves bad in practice. Slow procurement compromises service quality.
- Ensure that good, strong arbitration clauses are built into the contract, with clear recourse to appeal.
- Ensure that branding guidelines are built into the contract.
- When forming a consortium:
  - Be clear about the organization's motivation for doing so.
  - Agree upon roles and responsibilities early in the process and develop mechanisms to review these roles and responsibilities as the consortium develops.
  - Establish a coordinating body to facilitate interaction with government and within the consortium.
  - Be clear about what you will do if you do not win the contract and how this will affect your future working arrangements.

### **Contract implementation**

- Make the quality of services a primary concern. Prioritize operational decisions accordingly.
- Prioritize an understanding of government and donor weaknesses in contract-management capacity and take responsibility to counter these weaknesses.
- Be prepared for resources to become stretched by the capacity gaps of other parties. When possible, maintain overhead funds and work plans that allow this to be accommodated.
- Be prepared to absorb unexpected or hidden costs.
- Network regularly and proactively with key government and donor officials.
- Appoint dedicated liaison personnel, preferably with experience in both government and donor systems.
- Keep clear and thorough financial records.
- Carry out transparent internal audits.

### **Monitoring and evaluation**

- Determine monitoring approaches and tools in advance, and ensure they are appropriately focused.

- Ensure that monitoring is included in any contract implementation plan, and that it is carried out.
- Ensure that monitoring is ongoing throughout contract implementation.
- Ensure that monitoring systems are coordinated with the government and donors, partners, and sub-contractors.
- When determining the frequency of formal performance assessments, take into account the size, length, and technical needs of the contract, and the affordability of evaluation activities.
- When possible, evaluation should be conducted by an independent, external third party to ensure objectivity.
- If the government is unwilling to build into the contract evaluations by an independent third party, consider funding them unilaterally.

### Troubleshooting

- Ensure that potential issues can be rectified with a solid paper trail. Be very clear about your approach, structures, and record keeping.



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*A family in Kulna, Bangladesh.*

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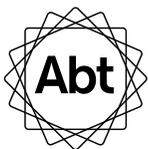
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For more information about the SHOPS project, visit: [www.shopsproject.org](http://www.shopsproject.org)



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