

Contracting of Health Services by Private Providers

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Barry Kistnasamy, MBChB, MMed
Nelson Mandela School of Medicine
University of Kwazulu-Natal



Presentation overview

- ❖ Definition of contracting
- ❖ Pros and cons of contracting
- ❖ Types of contracting
- ❖ Lessons learned in the different steps of the contract design process

Long-term role of Government (to recap)

- ❖ Private sector already is providing most care in developing countries
- ❖ In OECD countries very few health workers are civil servants; implicit or explicit contracts are the norm
- ❖ Experience in other sectors like public works indicates governments don't have to provide services
- ❖ Less time spent on service delivery will allow MOH to do a better job on their other roles

Definition of contracting

- ❖ Purchasing mechanism to acquire a specified service, of defined quantity & quality at agreed price from a specified provider for a specified period
- ❖ Agreement between two (or more) parties about their relationship and the nature of any exchange between them
- ❖ ‘Contract’ is used to describe a more formal and legal arrangement, while the term ‘agreement’ is used to imply greater informality with fewer legal connotations

Areas for contracting

Transversal services	<ul style="list-style-type: none">❖ Financial❖ Human resources❖ Procurement
Hospitality / Soft Services	<ul style="list-style-type: none">❖ Catering❖ Laundry❖ Buildings, gardens❖ Porters, security❖ Logistics
Clinical Support Services	<ul style="list-style-type: none">❖ Pharmacy, radiology, laboratory❖ Information technology❖ Emergency & elective patient transport❖ Step down
Clinical Services	<ul style="list-style-type: none">❖ Primary care❖ Specialist services

Advantages of contracting

- ❖ Private sector's flexibility
- ❖ Greater focus on measurable results
- ❖ Increases managerial autonomy & decentralizes decision making
- ❖ Overcomes absorptive capacity constraints
- ❖ Improves distribution of health workers
- ❖ Uses competition to increase effectiveness and efficiency
- ❖ Allows governments to focus greater efforts on their unique roles

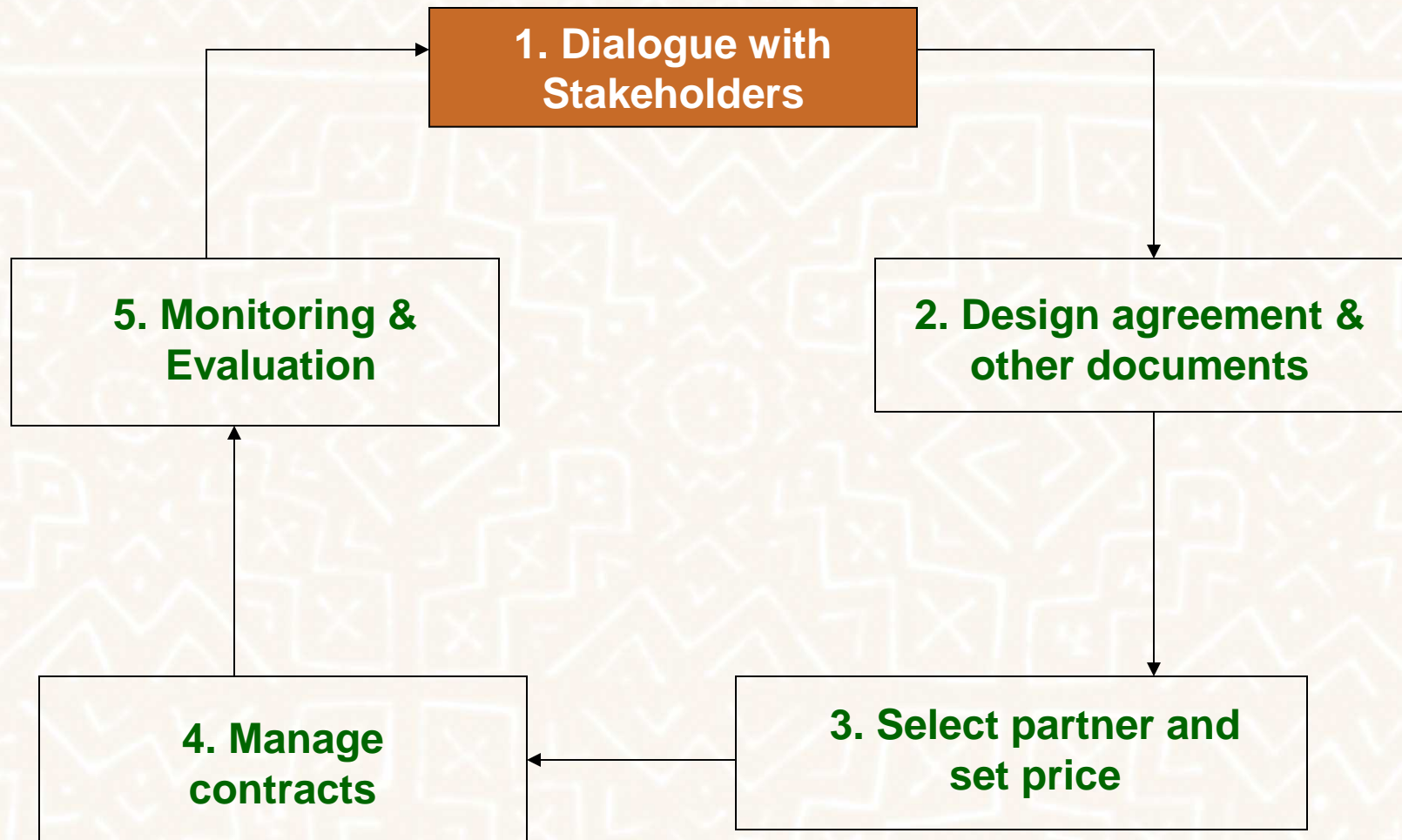
Potential difficulties of contracting

- ❖ Cannot be done on a scale that matters
- ❖ More expensive, higher transaction costs
- ❖ Increases inequities, NSPs only interested in “easy” areas
- ❖ Governments cannot manage contracts well
- ❖ Creates opportunities for fraud and corruption
- ❖ Governments and NSPs can’t work together
- ❖ Contracting is not “sustainable”

Types of contracts

Contracting Out (CO):	Service delivery contract. NSP can hire & fire, transfer staff, set wages, procure drugs etc., organize & staff facilities, NSP infrastructure
Contracting In (CI):	NSP manages service or district within MOH, cannot hire & fire, obtain drugs from MOH. MOH infrastructure – usually a management contract
Subsidy:	Government gives direct (grants) or indirect (tax exemptions) financial, support to NSPs for the provision of specific services.
Leasing or Rental :	Government offers the use of its facilities to NSPs
Privatization :	Government permanently gives or sells public sector health facilities to a NSP

The process of contracting



Dialogue with stakeholders

- ❖ Don't Panic!! – there are better and worse ways but it doesn't have to be perfect
- ❖ Perfection is enemy of the pretty good
- ❖ There's an opportunity for real creativity and adaptation to local conditions

Dialogue with stakeholders

- ❖ Contracting is new for most people so they need to hear about it a few times
- ❖ Existing workers: fearful stakeholders but there are options:
 - leave of absence
 - better pay or bonuses
 - other benefits (training, housing, etc.)

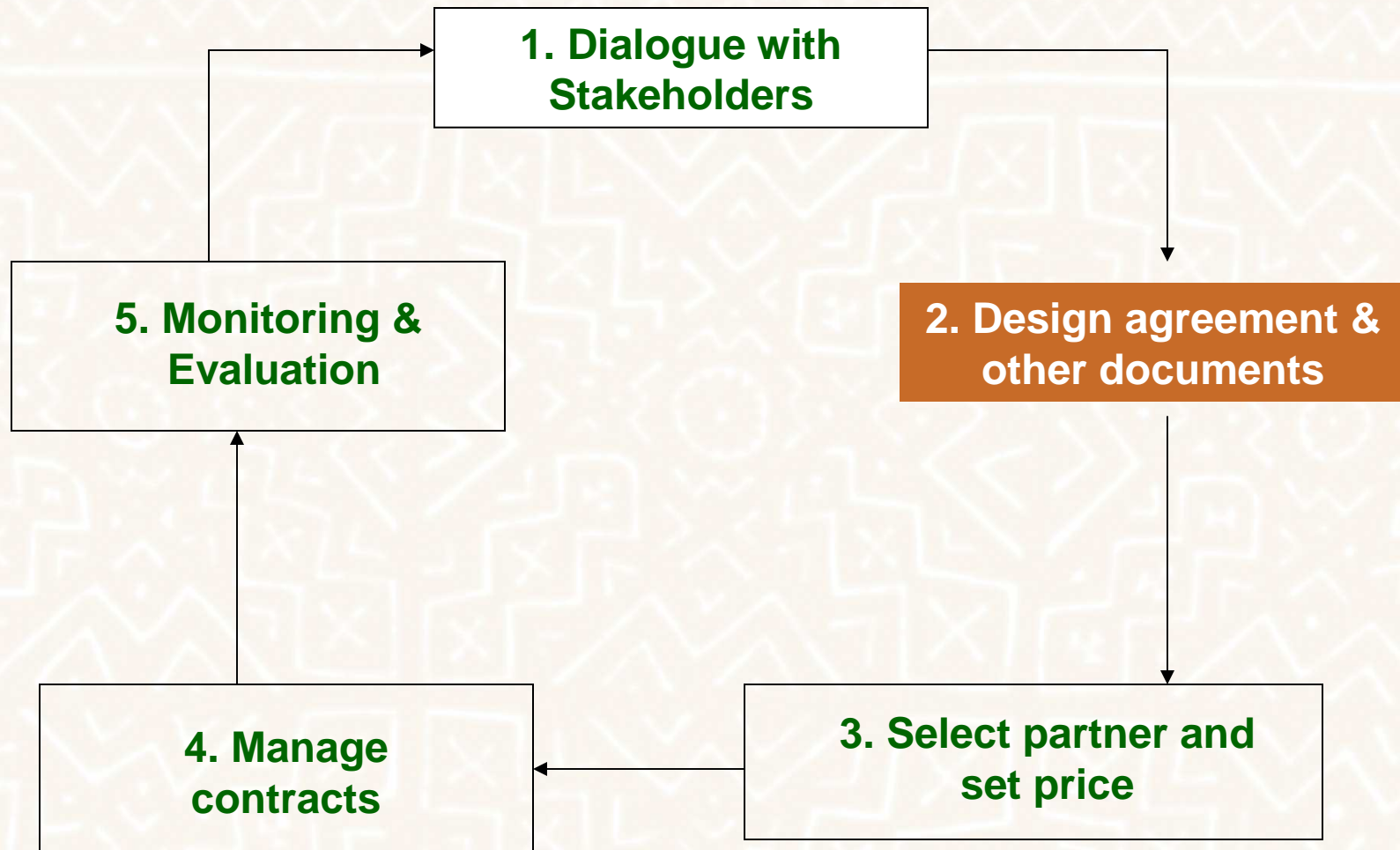
Dialogue with stakeholders

- ❖ Some politicians & officials - Fear giving up power, control, opportunities for corruption
 - need champions
 - discuss evidence
- ❖ Beneficiaries: May not recognize difference
- ❖ Non State Providers (NSPs): Fear of non-transparency, slow payment

Using documentation when in dialogue with stakeholders

- ❖ Draft TORs and a contract early on and use it as a basis of discussion (an iterative process) – avoids lots of theoretical discussion
- ❖ Ensure the objectives, indicators, and data collection methods are clearly articulated
- ❖ Information for contractors that describes the procurement process
- ❖ Develop a design document that spells out how contract management and M&E will be done

The process of contracting



Design of contracts

Four components in a contract design

- ❖ Defining Objectives
- ❖ Maximizing Managerial Autonomy
- ❖ Size of Individual Contracts
- ❖ Other important aspects of contracts

Defining contract objectives

- ❖ Big advantage of contracting is **results focus** so concentrate on outputs not inputs
- ❖ The client should objectively define:
 - Quantity of services (e.g. % CPR coverage)
 - Quality of care (national technical guidelines)
 - Equity (ensuring the poor receive services)
 - Catchment area and population

Stating contract objectives

- ❖ They need to address the most important challenges
- ❖ There can't be too many
- ❖ They need to be measurable and measured
- ❖ Targets need to be reasonable, not obsessive

Ensuring focus on outputs ... *not* inputs

- ❖ Performance bonuses (?)
- ❖ Providing baseline data to contractors
- ❖ Regular discussion of indicators
- ❖ Use of Health Management Information System data
- ❖ Credible threat of being fired for non-performance
- ❖ RC!!!! (Read the contract)

Ensuring managerial autonomy

- ❖ Decentralize management to people who are closest to the ground reality
- ❖ Accountability for results is easier when managers have responsibility & autonomy
- ❖ Encourage innovation
- ❖ Take advantage of private sector's flexibility

Scale – size of “packages”

- ❖ Economies of scale
- ❖ Large packages facilitate contract management
- ❖ Easier & cheaper to monitor and evaluate contractor performance with fewer packages
- ❖ Concerns regarding contractor capacity
 - hard to predict & compared to what alternative

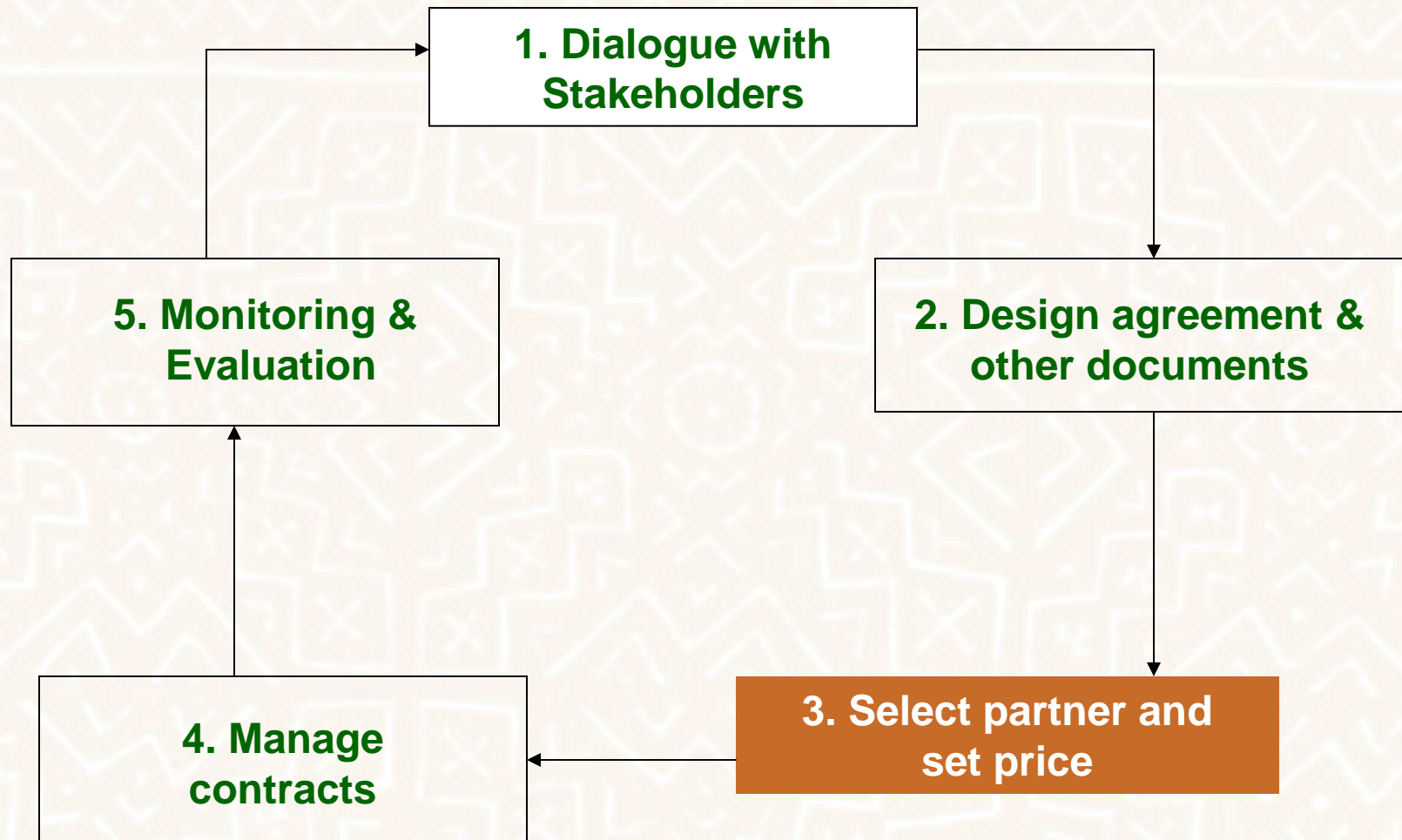
Other important aspects in contract design

- ❖ Duration: 3-5 years is minimum, takes time to build relationships, no advantage to yearly “renewal”
- ❖ Termination / Sanctions: Clearly spelled out procedures. Embarrassment works!!
- ❖ Payments: Mobilization payment needed, 6 monthly payment thereafter (less frequent payment increases timeliness of payment)
- ❖ Reporting Requirements: Clear, not onerous

Relationships & responsibilities

- ❖ Contract type: For services already being delivered by government, “contracting-in” is often easier
 - need to define relations with existing staff
- ❖ All contracts need to define the authority of government officials
- ❖ Infrastructure: – who owns it? contractor pays for maintenance & repair

The process of contracting



Contractor selection – competition vs. sole source

- ❖ NSPs want transparent process with a “level playing field” → competition
- ❖ Competitive process will generally lead to “best” managers, most innovative ideas, “best” organizations
- ❖ Sole source selection is quick but not fair, not transparent, creates resentment, leads to “fat & happy” NSPs, limits innovation & creative thinking

Selection criteria

- ❖ Need to be clearly defined in advance
- ❖ Should not be excessively detailed
- ❖ Should not be excessively difficult
- ❖ Should look at:
 - Experience of organization (track record)
 - Key staff (quality of managers)
 - Work-plan / strategy (lowest % of score)

Determining the price of a contract

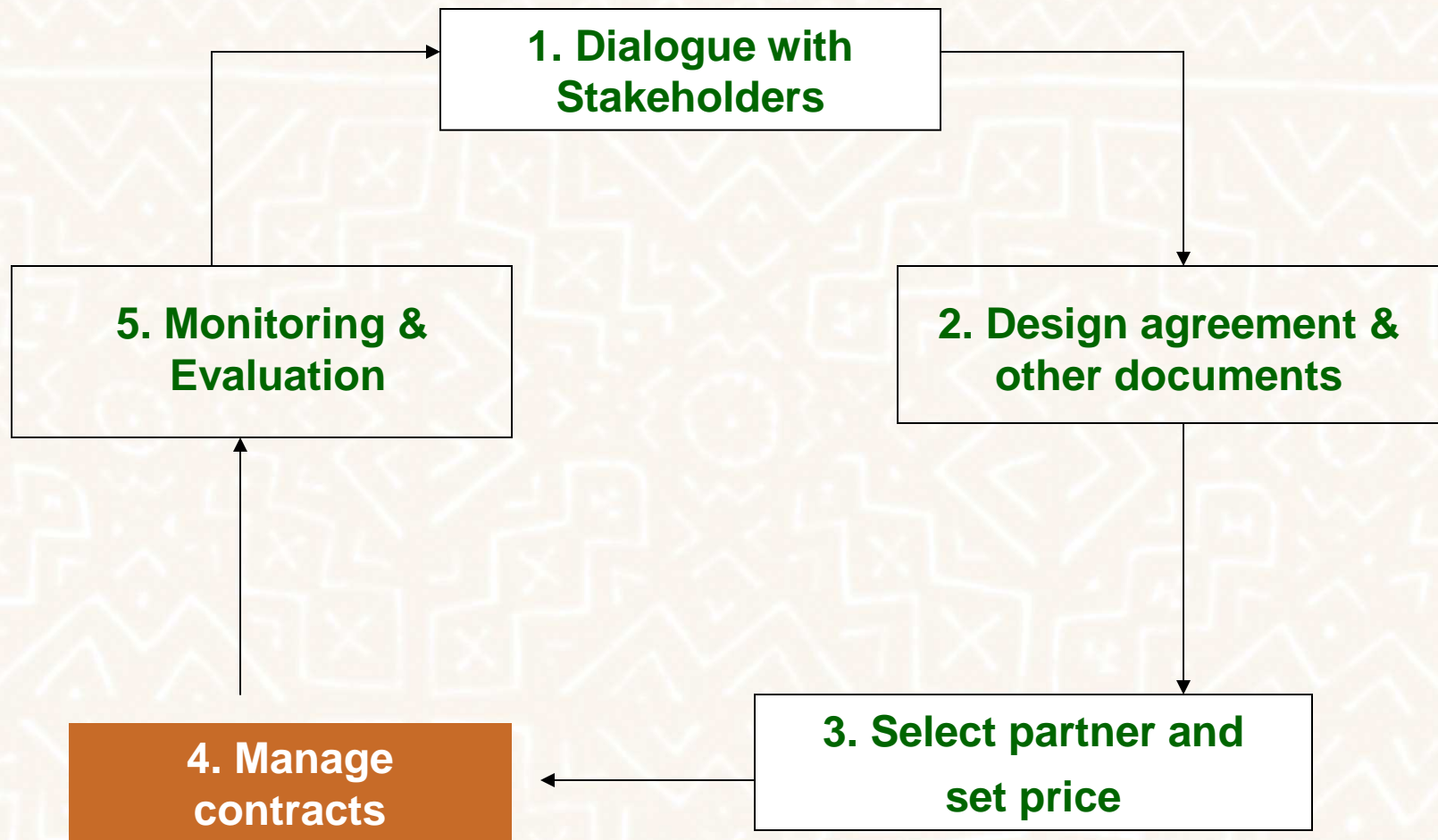
There are basically 3 options, each with benefits and issues:

- ❖ Competition at least partly on the basis of price
- ❖ Negotiation of price with selected NSP
- ❖ Fixed price where client sets price in advance

Evaluation process of proposals

- ❖ Independent evaluation committee
- ❖ Committee should include members external to client / purchaser:
 - technical agency (e.g. WHO, UNICEF, UNAIDS)
 - representative of NSP community (obviously need to avoid conflicts of interest)

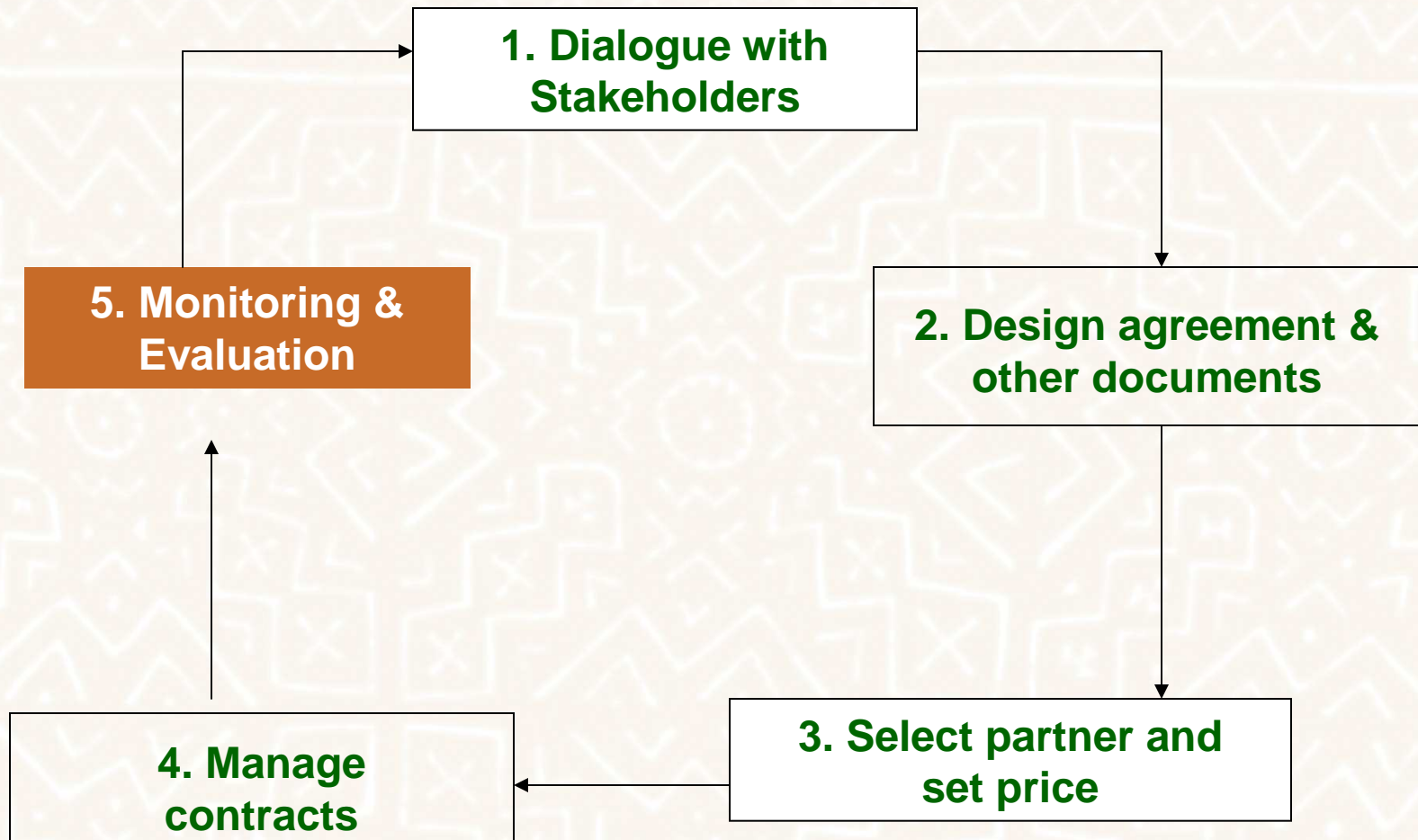
The process of contracting



Major issues and challenges in contract management

- ❖ Paying contractors on time
- ❖ Minimizing corruption
- ❖ Proper monitoring and evaluation
- ❖ Solving problems – many related to relationships
- ❖ Maintaining government oversight & involvement while avoiding micro-management

The process of contracting



Monitoring and evaluation

- ❖ Ensure that contracts remain output and outcome focused
- ❖ Learn lessons and improve performance
 - Technical
 - Administrative

Take home messages

- ❖ It's worth trying to contract!! Not just a far fetched idea. May make a real difference in achieving MDGs
- ❖ Evaluate – debate on contracting should be decided by evidence not eminence
 - Evidence is good but not great. Better than other interventions though
- ❖ Practical Issues will determine success!! – need to pay attention to contract design & management

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barryk@ebucksmail.com