Contracting Out Government Functions and Services: Lessons Learned from Post-Conflict and Fragile Situations

Jerzy POMIANOWSKI, OECD
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What do we mean by ‘contracting out’?

• OECD: “The transfer of competencies or authority for a given period of time based on a contractual arrangement between the delegating authority (the government) and a third party (a contractor).”

• We know that contracting out is widely used in developed and developing countries.

• In fragile situations: What can and should governments deliver themselves? What can be effectively delivered by non-state providers?
OECD work on contracting out

- **2007**: OECD and UNDP launch three-year pilot initiative to explore service delivery in post-conflict and fragile states, the Partnership for Democratic Governance

- **2008**: DAC publishes “Service Delivery in Fragile Situations: Key Concepts, Findings and Lessons”
OECD work on contracting out

- **2009**: PDG and AfDB host conference in Tunis to discuss lessons on contracting out; mandate given to OECD to develop *practical guidance* for contracting out.
- **2010**: OECD publishes *good practice handbook* and produces short *documentary film*
- **2011**: PDG pilot phase ends; guidance and good practice disseminated to members and carried over to OECD-DAC INCAF
What is the OECD Handbook?

• A reference tool for informed dialogue on contracting out;
• A road map to assess options, to mitigate risks, to optimise available options and to take an informed decision to possibly implement a contracting out arrangement; and,
• A guide for developing and formalising partnerships for the use of contractual tools and modalities for the delivery of services.
What is the OECD Handbook?

• It is NOT:
  – A legal document
  – A technical manual or blueprint
What is the OECD Handbook?

1. The Scope of Contracting Out in Fragile States
2. Managing Incentives and Risks
3. Contracting Out and Capacity Development
4. The Procurement Process
5. Legal Issues

Annexes: Resources, template contract, types of contracts, output-based aid and contracting out, glossary
What is the OECD Handbook?

• Accompanied by a short documentary film, which illustrates the points made in the Handbook through the examples of contracting out education services in **Haiti** and health services in **Liberia**.
Possible risks

• Can undermine statebuilding efforts if it results in bypassing the state and in neglecting the long-term goal of national capacity development.

• May appear to contradict the aid effectiveness principles of partner government ownership and of accountability towards its citizens.
Possible advantages

• It can allow states with weak capacity and limited resources to avoid the heavy demands of directly providing services and instead to focus on the “stewardship” roles of planning, policy development, setting norms and standards, financing, oversight and regulation.

• Can help to co-ordinate and rationalise existing provision, and can extend the provision of services into remote geographic areas.
Assessing the suitability for contracting

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**Approach:**
- Contract in expertise for discreet tasks on a short-term basis
- Retain control of decision making

**Approach:**
- Contract in expertise for discreet tasks on short- to medium-term basis
- Contract development of state capacity for long-term performance

**Approach:**
- Contract out delivery on short- to medium-term basis
- Retain decision-making and oversight functions

Some examples of contracting out

- Health Services in Afghanistan, Bahrain, Egypt, Islamic Republic of Iran, Jordan, Lebanon, Morocco, Pakistan, the Syrian Arab Republic and Tunisia.
- Public Utilities and Services in Gaza
Health services in MENA region

- Multi-country assessment carried out on the range of health services contracted out, the process of contracting and its influencing factors in ten countries: AF, BH, EG, IR, JO, LB, MA, PK, SY, TN.

- AF, EG, IR, PK had experience with outsourcing of primary care services;

- JO, LB, TN extensively contracted out hospital and ambulatory care services; while BH, MA, SY outsourced mainly non-clinical services.
Health services in MENA region

• Risks
  – Reliance on donor funds, limited number of providers in rural areas, parties with vested interests gaining control of contracts, poor monitoring and evaluation.

• Opportunities
  – Greater control over private providers in countries with poor regulatory capacity, can improve health system performance.

• Contracting ≠ privatisation of health services
Health services in MENA region

• Supporting elements:
  – A few clearly defined deliverables;
  – Supportive stakeholders;
  – Trust between contractor (Government) and agency contracted to deliver services;
  – Independent source of monitoring information; and,
  – Legal system and political environment which convinces both sides that the contract will actually be enforced.
Public Utilities and Services in Gaza

- Following a competitive bidding process in mid-1996 the Palestinian Liberation Organisation contracted a private consortium, Lyonnaise des Eaux/Khatib and Alami (LEKA), to provide water and sanitation services to the Gaza Strip.

- Four-year agreement one of the first private sector initiatives in the Middle East water sector, and involved provision of day-to-day routine maintenance needs on behalf of the public entity.
Public Utilities and Services in Gaza

- Contracting out the delivery of functions and services is **likely to have less impact** on the sovereignty and internal functioning of the state.
- The delivery of state functions includes the actual implementation and operation of the function at the interface with citizens (either as consumers or beneficiaries).
- Frequently allows government to exploit competition between rival contractors.
What have we learned?

- **Government leadership and stakeholder involvement** are critical for success.
- Contracting out should be a **partnership** between the public and private actors.
- **Strong management** of both purchaser and provider is essential.
- Management contracting works best when there is a **basic functioning infrastructure**.
What have we learned?

• With some assistance, governments can effectively design, manage and monitor service delivery contracts.

• Finally, although there is no conclusive evidence as yet, contracting out may help to foster confidence in the governments of fragile states.

• Information systems and record-keeping, along with contract oversight and evaluation, are often difficult hurdles to overcome in contracting.
Next steps

• Request from some donors for a “non-FCAS” version of the Handbook
• Sectoral handbooks?
• OECD work on contracting out will be carried forward through its work on statebuilding and service delivery
Thank you for your attention

- For more information:
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