



Performance-Based Contracting for Health Services in Developing Countries: A Toolkit

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This book was written to help bridge the yawning gap between many developing countries and the Development Goals for health. Right now, that gap looks daunting. But we can narrow the gap significantly by contracting, especially using non-state providers. The status quo, in which millions are denied basic health services, is not acceptable. Contracting is an effective way to improve the daily lives of the most vulnerable.

Contracting is the means by which a funder buys specific services from those non-state providers. This practical “how to” guide is aimed at staff of government agencies, insurance companies, social insurance funds, nongovernmental organizations, faith-based organizations, private health care providers, and international development partners.

* This summary was written by Michael H.C. McDowell, an international public health communications consultant.



Whether to Contract

SUMMARY BY MICHAEL H. C. MCDOWELL

What is the experience in different countries? Let's take the examples of Afghanistan and Haiti.

Afghanistan had some of the worst health conditions in the world in 2001, when the Taliban regime fell, with under-five mortality of 256 per 1,000 live births, and a total fertility rate of 6.8 children per woman. Urban/rural disparities were huge: mothers were 15 times more likely to die in childbirth in one remote Northeastern province, compared to the capital, Kabul. Diphtheria/pertussis/tetanus (DPT3) immunization coverage was 58 per cent in urban areas but only 19 per cent in rural areas. Female health workers were scarce, especially in remote parts of the country. To tackle this major problem, the Ministry of Public Health (MOPH), with World Bank funding, decided to contract with local and international non-governmental organizations (NGOs) to deliver a basic package of health services. NGOs were given considerable autonomy in how to spend the funds, and could win performance bonuses for reaching or surpassing specific goals.

What were the results? Contracted health facilities showed an 18 per cent rise in both the quality and quantity of care in the first two years, compared to an almost 7 per cent decline in facilities managed by the government. In short, under difficult conditions, performance contracts made large improvements in the quality of care, and contracting covered 20 million people in a country of 25 million.

Haiti: The United States Agency for International Development (USAID), since 1995, had supported NGOs providing primary health care in rural areas, but by 1997 there was a very wide variation in coverage quality. For example, immunization coverage varied from 7–70 per cent among children aged 12–23 months, and expenditure per visit, which ranged from \$1.35 to \$51.93, was not linked to performance. A decision was made to offer NGOs 95 per cent of their original contract payment, in exchange for performance bonuses worth 10 per cent of the contract amount—if they achieved agreed-on targets. In Haiti, the

poorest country in the Western Hemisphere, most NGOs shifted over just a few years to performance-based contracts with an emphasis on tracking outputs. By 2005, 100 per cent of children were fully immunized, compared to 34 per cent in 2000. In addition, in the same five year period, 60 per cent of women received at least three prenatal care visits compared to 29 percent in 2000.

Contracting Can Quickly Improve Service Delivery:

Fourteen studies, including Afghanistan and Haiti, show that contracting with Non State Providers (NSPs) appears to deliver effective primary health or nutrition services. Impressive improvements can be achieved rapidly, in a variety of settings and for various kinds of services. Ten of the 14 studies showed that contractor performance was more effective than government provision of the same services.

Alternatives to Contracting: Some Success Stories of Government Provision:

there are success stories of public provision of health services in Costa Rica, Cuba, Kerala State in India, Sri Lanka, and Vietnam but the cases in our review suggest NSPs will perform better, not that governments will always perform badly. Interestingly, in Costa Rica, when a workers' cooperative took over the management of clinics, performance improved.

Why Does Contracting Work?

- It focuses on results, i.e., there is a credible threat of sanctions for non performance
- NGOs and NSPs are generally more flexible and less hindered by "red tape" or bureaucratic restrictions, than government
- It reduces important aspects of corruption, such as absenteeism
- It uses constructive competition
- It improves absorptive capacity.

What are some common concerns about contracting and global experience?

Concern	Experience so far
1. “Contracting can only be done on a small scale.”	Contracting was done on a small scale up until the late 1990s; however it is now being implemented on a very large scale. In Bangladesh, Pakistan, DR Congo, and Afghanistan, contractors provide services to tens of millions
2. “Contracting is more expensive than government delivery of services.”	This has been true in Cambodia and DR Congo where previously, expenditures on health were very low. In Pakistan, Bangladesh, and Guatemala, contractors achieved good results even if provided the same or fewer resources than those made available to the public sector.
3. “Contracting will worsen inequity, partly because NGOs and other NSPs will not want to work in remote areas.”	The effect of contracting on equity has been measured in a few cases, and has either been better or no worse than in non-contracted areas
4. “Even if successful, contracting will not be sustainable.”	Some contracting efforts have been going on for more than 10 years and 85% of the examples evaluated so far have been sustained and even expanded.
5. “Contracting will lead to increased opportunities for corruption.”	Preventing corruption is difficult and requires constant vigilance. While there is limited data, contracting may avoid some aspects of corruption such as absenteeism.
6. “Governments have limited capacity to manage contracts effectively.”	Contract management has been an issue in some settings and deserves careful attention. In a number of countries, including some with limited experience in this area, contract management has been done well indicating that the problem may be solvable.
7. “Contracting reflects a political agenda aimed at weakening the role of the state and privatizing health care.”	Contracting is fully consistent with public financing of health services. By bringing patients back from the private sector into publicly-financed facilities, it actually strengthens the role of the state.
8. “Contracting will increase the presence of foreign NGOs.”	In countries with many existing NGOs, most contracts have been won by local NSPs. However, in countries with few local NGOs, the first batch of contracts did go to international NGOs but subsequent contracts have often been awarded to local NGOs
9. “Contracting in post-conflict situations will weaken the state at a time when it should be strengthened.”	Where contracting has been implemented in post-conflict settings it does not appear to have weakened the state because the government has been able to coordinate private efforts.
10. “Contracting will lead to duplication of effort where there are existing public services.”	Contracting has been successfully used to strengthen existing public services in a number of countries including Cambodia, Pakistan, Rwanda, Afghanistan, DR Congo, and Guatemala
11. “Contracting is a donor-driven initiative.”	It is true that many contracting initiatives in low income countries have been financed by development partners. However, this has not always been the case. In Pakistan a very large contracting effort was developed, implemented, and financed entirely through a local initiative.

- It brings about a better distribution of health workers
- It encourages managerial autonomy, encourages innovation and better management
- It allows government to focus on its stewardship role

There can be opposition sometimes among politicians or public servants if they see contracting as:

- An implicit criticism of their personal performance
- Showing public sector services in an unfavorable light
- Reducing their control, power, and prestige, and
- Some officials will resist change, per se, because it is different from the system they are used to.

In What Contexts Will Contracting Work—or Not Work?

Contracting has worked well in diverse situations and often in what seemed, at first, to be unpromising environments.