



# Chapter 17

## Contracting Services

### 1. What is contracting services?

Contracting services is using the established expertise of public agencies (eg, Ministry of Finance and Ministry of Health), external agencies (e.g., NGOs), private firms, especially; accounting and management consulting firms, and other organizations to undertake basic project management and administrative functions such as financial management, procurement, disbursement, monitoring and evaluation, social assessments, and social impact monitoring, and subproject approval. Contracting services may be provided by a contractor within the NAS office or at another location.

### 2. Why is contracting services important?

- Enables implementing and oversight agencies to concentrate on core “coordination and facilitation” activities rather than project management;
- Expedites the delivery of benefits to target groups in cost effective ways;
- Involves more stakeholders and sectors of a country in project implementation.

### 3. What can be contracted out or contracted in?

The role of MAP projects is to deliver services to target groups as quickly as possible in the four core areas of prevention, care, treatment and mitigation and to empower local communities to implement projects for themselves. This may not be possible using the more traditional project implementation arrangements (for example, a typical Project Implementation Unit (PIU) structure) where the PIU undertakes all implementation activities. The NAC/NAS are new, and may not have the capacity, scale, or budget to meet stakeholder expectations for effective and swift project implementation. This may also be true of other service providers. One logical option is contracting all or some services from outside firms into the NAC/NAS structure to fulfill agreed core duties or functions.

Contracting services can be very cost effective. Competition in tendering will produce the best possible price, and in the course of the contract the firm will look for the most cost effective way of fulfilling its obligations. In the unlikely event that the incremental cost of contracting services exceeds the estimated NAS cost, time saved in implementation and the more rapid realization of benefits will likely far outweigh any additional cash costs. Experience with MAP projects provides ample evidence of this conclusion. Box 17.1 illustrates Kenya’s successful experience contracting part of its financial management tasks to the private sector.

#### Box 17.1: Kenya Example

Kenya’s NAS has appointed a Financial Management Agent (FMA) to disburse all project funds which target civil society. The cost of this service is equal to about 9 percent of the funds to be disbursed by the FMA. This cost is well below the overhead costs of many agencies and NGOs which undertake similar tasks. Additionally, and probably equally importantly, it releases senior NAS personnel from many of the day-to-day financial matters so they can concentrate on key program issues. FMA staff that are not located in the field have their offices at the NAS. They participate in regular NAS operations and management meetings and it is clear that they are transferring financial management knowledge to regular NAS personnel. FMA also pays rent to NAS which helps defray overhead costs.

As HIV/AIDS overwhelms public systems, contracting services is a way of bringing in reinforcements. By involving more people and organizations in the struggle, it reduces the work that any one of them has to bear. Contracting services promotes an efficient division of labor. Many tasks are so specialized or repetitive that they are best carried out by entities that have developed that specialized expertise. Most of these tasks having nothing to do with HIV/AIDS; they include such detailed (and mundane) tasks as financial management and procurement. Delegating this work to those who know it best liberates public officials to perform the HIV/AIDS-specific functions that they alone can fulfill (such as setting policy and improving coordination).

NAS officials sometimes fear that contracting for services will mean a loss of control. In fact, the opposite is true. Contracting actually increases NAS's control. When a NAS purchases services from a contractor, it can specify in the contract precisely the nature, level, mix, and service standards it expects. The contractor has an incentive to perform well, both to ensure renewal of the contract and to enhance its commercial reputation, given the high profile of national HIV/AIDS programs. If the contractor fails to perform, it can be held legally responsible for any resulting delay or damages, and NAS can terminate the contract. By contrast, when a NAS depends on in-house (public sector) providers, there are generally no service standards, and NAS has neither the legal recourse for substandard performance nor authority to terminate the provider. Given the rigidity of most civil service systems, this leaves NAS at the mercy of a single provider.

### Some of the key services of MAP projects that may be contracted are:

**i. All or part of the *financial management system (FMS) requirements, disbursements, and internal audit. This may be done:***

- Entirely- for example, all financial management and disbursement services throughout the country.
- Functionally- for example, all disbursements, maintenance of the project general ledger, internal audit, etc.
- Geographically- for example, all services in a particular province.
- According to the level of project decentralization- for example, all FMS for NGO intermediaries, or all FMS for local communities.
- According to the specific services needed in any given financial management environment in regional or local project administration.
- A combination of any of the above.

Examples of successful contracting services in MAP projects in this category include:

- A comprehensive package of financial management services including accounting services and disbursement services to the private sector in Senegal;
- Accounting and most other traditional project management unit services to a sector PIU in Cape Verde;
- Disbursement services for civil society grants to a private firm in Kenya;
- NAS accounting to the Ministry of Finance in Zambia.

**ii. All or part of *procurement management. This may be done:***

- Entirely- for example, all implementing agencies for all goods, equipment, works, and consulting services;
- Geographically- for example, all procurement in a given geographic area;
- According to the level of project decentralization- for example, for all intermediary service providers;

- According to a financial threshold level- for example, all procurement over say \$10,000 or equivalent in local currency;
- According to specific procurement items- for example, all goods;
- according to the specific services needed- for example, the services of a procurement specialist in the NAC/ NAS central office;
- A combination of any of the above.

An example of contracting services in MAP projects in this category includes the Cape Verde MAP which contracts all procurement services.

**iii. *Community and civil society initiatives component management which may involve:***

- Assistance to local communities with preparation of proposals;
- Receipt of proposals;
- Evaluation of proposals and site visits where necessary;
- Approval of proposals either across the board or according to a financial threshold level;
- Implementation supervision;
- Disbursements;
- All, or a combination of any of the above, according to geographic location, or according to sub-project theme.

Examples of successful contracting services include: both the Senegal and Sierra Leone MAP projects contract out application reviews and the technical appraisal of sub-projects, and several countries have contracted out program mobilization and coordination to regional NGOs.

**iv. *Community mobilization which may include:***

- Identification of community needs.
- Preparation of proposals.
- Managing funds;
- Measuring impact.

**v. *Social marketing of condoms nationally or regionally.***

**vi. *Sensitization and HIV/AIDS social impact assessments and capacity program development in:***

- National ministries and agencies.
- Decentralized ministries.
- NGOs.
- Community Service Organizations.

**vii. *Monitoring and evaluation:***

- By geographic region or by other stratified populations
- The collection of baseline data
- The measurement of impact of project interventions

An example is Senegal, which sub-contracts the surveillance aspects of monitoring and evaluation to the Ministry of Health.

- viii. **Mandatory *financial audit* to the private sector rather than through the government auditor.**
- ix. ***Procurement audits.***
- x. ***Maintenance services for equipment and vehicles.***

As with many other aspects of implementing MAP projects, one model or method of contracting services does not necessarily fit all situations or projects. However, one of the four access criteria for countries to benefit from MAP funding is the willingness to use exceptional implementation procedures in the war against HIV/AIDS. “Exceptional” is defined as: (i) channeling money directly to beneficiaries, especially communities; (ii) contracting aspects of program management and administration to avoid creating new bureaucracies and to accelerate program implementation.

#### 4. Lessons learned and recommendations

- **The Map Progress Reviews in 2001 and in 2004 both concluded that the greatest danger to rapid and sustainable action is the tendency for NAC/NAS to act like bureaucracies**, to build up in-house capacity rather than to contract services, and to empower themselves rather than empowering units in ministries, civil society, and communities. One way to overcome this problem is to contract service functions on the basis of efficiency and effectiveness rather than assuming the NAC/NAS is entitled to become a large bureaucracy.
- **MAP program implementation is more successful in countries where the NAC/NAS has defined its role** as “facilitation and coordination” rather than as “control and implementation”.
- **Contracting services of the impact assessment and program development of government agencies is critical if programs are to be effective and timely.** All countries have a multitude of public organizations which have enormous potential to impact positively on the war against HIV/AIDS. Many of these agencies do not have the capacity to undertake their impact assessment or program development so, as a consequence, many opportunities are lost. The assessments and program development should take place during project preparation. Funding for this may come from a PHRD grant, Project Preparation Facility, or retroactive financing. Agencies in on-going MAPs, which have been determined to have inadequate assessments and programs should contract out this assessment forthwith. The process of impact assessment and program development is essential for building commitment within a public agency especially if it is undertaken by consultants who are familiar with the agency and its business and have the agency’s confidence.
- **Contracting services has taken several different forms** from comprehensive contracting of all essential services in Senegal (FMS, disbursements, program approval, monitoring and evaluation etc.) to selective service contracting in other countries of one or several of the functions described above. More contracting of services facilitates program implementation.
- **Contracting financial management including disbursement services has been found to be the most effective way of managing project funds and complying with donor fiduciary requirements.** However, there is a need for NAC/NAS to provide clear information about MAP and provide guidelines and information on the operations, flow of funds, and reporting requirements to both civil society and other stakeholders in the public sector, and to retain overall responsibility for overseeing implementation.