# Impact of low-cost bidding on a Contracted-Out (CO) urban primary health care project in Bangladesh: Implications for change

## KEY MESSAGES

In phase III of the Urban Primary Health Care Service Delivery Project (UPHCSDP), a low-cost bidding system and a high cost recovery target were introduced as criteria for NGO selection.

At the service level this translated into fewer free services for the poor, reduced staff training, and an overall compromise in service quality.

To avoid the experience described above, economic planning, risk assessment, and financial management skills are needed for decision making in Contracted-Out (CO) arrangements.

## ISSUES

Contracting-Out (CO) for Primary Health Care (PHC) services has been identified as a potential means to fill gaps in public services. Due to increased demand for health services on account of rapid urbanization and the limited public provision of PHC, NGOs in urban Bangladesh have been contracted to provide PHC services since 1998 under the project "Urban Primary Health Care Service Delivery Project" (UPHCSDP). Project objectives include extending quality service coverage for the urban poor and strengthening the capacity of local Government Institutes (LGI), i.e. City Corporations (CC) and Municipalities, to manage contracts. The implementation agency is the Ministry of Local Government, Rural Development & Co-operatives (MoLGRD&Co) supported by a funding coalition led by the Asian Development Bank (ADB).

Over the three phases of the project, the bidding assessment for contracts, which involves the scoring of financial and technical proposals, has changed substantially. This policy brief focuses on the effects of these changes on NGO performance and implications for future CO planning.

## THE RESEARCH

We interviewed 42 individuals from relevant ministries, project management, and contracted partner NGOs who have been associated with the implementation of CO at different stages and levels. The research was conducted between 2015 and 2017.

## FINDINGS

### Change in bidding criterion for NGO selection

The partner NGO selection process changed substantially from phase II to III. In the initial phase of the project, technically strong bids were reviewed before the financial component was assessed. In the third phase however, a technical proposal was marked either pass or fail and no score was carried over for the overall. Bids that passed the technical assessment were then scored according to cost. The highest score was given to the lowest bid, with the result that cost received more weight than technical quality in the final selection.

This modification in approach was due to changes in ADB rules related to bidding, whereby health services were listed under "Goods" (ADB's guidelines for procurement) which is a category that may be less appropriate given quality concerns for Health Services compared to the more typical infrastructural projects that ADB supports. This may have affected the capacity of NGOs to manage quality services with low budgets (Asian Development Bank, 2014; Department for International Development UK, 2012).

## IMPACT ON FREE SERVICE PROVISION FOR THE POOR

In an effort to ensure a successful bid, it was reported that many NGOs proposed very low budgets in phase III. This made it difficult to attain the two main goals of the contract- i) to provide 30% of its services for free to the poor and ii) to recover costs[1] through service fees/charges from the remaining services.

Some NGOs prioritized income generation over free services as they were contractually bound to achieve the income target and maintain their services. Notably, in areas with higher proportions of poor residents requiring free services, it was difficult for NGOs to recover costs

[1] A portion of service and management cost for the 5 years is provided by the UPHCSDP from donor funding. NGOs need to contribute the rest from their revenue.

compared to those serving in other areas since a greater proportion of their patients required free services. Several incidents of misrepresentation of data were reported whereby services to the poor were inflated, and more attention was paid to clients able to pay -

> "NGOs need to generate high income. They are showing X number of clients as red card (health card entitling the poor and ultra-poor to free health care services) holders, but in reality the scenario is different. Maybe, they are providing services for the poor, but the numbers are less (than shown on paper)..."
>
> —Project staff

**Impact on health workforce**

A skilled health workforce is one of the prerequisites for efficient service delivery. Due to low budgets, opportunities for in-service training and incentives for staff have been reduced. Incentives (e.g., travel allowances, increments, etc.) have also been curtailed. According to some respondents, this has negatively affected staff motivation and retention.

**Impact on sustainability fund**

Like LGIs, NGOs are required to contribute some percentage of their revenue through cost recovery to a Sustainability Fund for the CO project. NGOs reported that meeting the proposed high cost recovery requirements was proving very challenging, with little remaining for contributions to the sustainability fund.

> "If an income target is fixed, then serving the poor is impossible. [As for] the sustainability issue, it is [also] a conflicting idea...We cannot only blame the NGOs."
>
> —Project staff

## POLICY IMPLICATIONS

The dynamics arising from financial requirements in the contract design and bidding for NGO selection, shaped subsequent implementation of the UPHCSDP by all three major parties involved - donors, MoLGRD&Co, and partner NGOs. Given that all stakeholders share responsibility towards ensuring smooth implementation and quality service provision, a number of recommendations are proposed:

**Firstly, international funding agencies such as the ADB need to carefully consider the consequences of applying their own procurement guidelines and overriding those of the loan receiving country.** There needs to be proper and open consideration of what guidelines would best suit the goals of the project for all parties, and most importantly, follow those that ensure the purchase of Health Services of high quality.

**Secondly, the MoLGRD&Co needs to appraise the contracting-out process for health more comprehensively, which includes taking into account the potential adverse effects of changing contract terms especially those related to financing.** A realistic estimation of the minimum budget that can allow for the provision of quality PHC services in each assistance/program area must be established to prevent unrealistically low tenders from NGOs. This exercise may be based on the experience of other LMICs. The technical proposal should be given adequate weight and added to the final bid scoring in order to obtain the right balance of quality and cost.

**Similarly, NGOs are responsible for calculating financial projections that are realistic and proposing tenders that align with actual costs.** Bidding low amounts just to secure a contract will only hamper service quality and tarnish the credibility of NGOs as viable service providers.

A Sustainability Fund, as proposed in the UPHCSDP, is a pragmatic requirement to ensure the continuation of urban PHC service in Bangladesh beyond the donor funded period. However, as seen from the UPHCSDP experience, the goal of serving the poor by providing free services may be incompatible with making contributions to the pooled fund. **NGO managers and LGIs should be encouraged to develop other approaches to generate revenue within the PHC project or outside to maintain the Sustainability Fund.**

## REFERENCES

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