

## **UK International Development Select Committee: DFID's Use of Contractors**

### **Written Evidence submitted by Options Consultancy Services Ltd**

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#### **EXECUTIVE SUMMARY**

- There are many types of organisation in the category of contractors; diversity brings advantages through complementarity
- Contracts often include managing funds to be subcontracted or sub-granted to other 'deliverers'
- Funds spent on 'for-profit' private companies is a much smaller financial investment than implied by the reported 9%
- Contractors often provide specialist technical assistance that would be unsuitable for other delivery strategies
- Procuring such services is a 'one-stop shop' for DFID and as such a very efficient use of resources
- Use of contractors enables great innovation and often leverages a result far greater than the cost of the investment
- It also adds value by bringing coherence and effectiveness to the broader UK Aid strategies.

#### **INTRODUCTION**

Options Consultancy Services Ltd (Options) is a contractor to DFID that has worked in over 50 countries and, as one of DFID's 11 Key Suppliers, is valued for its high quality work and results. Options has worked with DFID/ODA since 1992, providing expertise to strengthen pro-poor health systems, working with governments, civil society and the private sector in sexual and reproductive health, maternal newborn and child health, citizen voice and accountability, gender, social inclusion and equity.

Options is a wholly owned subsidiary of the charitable social business, Marie Stopes International (MSI). We are a commercial company with a social purpose: to build partnerships to transform the health of women and children.

As a contractor to DFID, we welcome the opportunity to submit evidence to the International Development Committee and draw attention to the important work that is carried out by a diverse range of organisations, many of them specialist in their nature, who fall within the broad category of contractors to DFID.

#### **A. Costs and advantages of using contractors in relation to other approaches**

1. The development sector is pluralist, and the diversity of its actors is reflected in DFID's use of contractors. This is relevant for any comparison between DFID's use of contractors to other delivery strategies because:
  - a. there is variation in the types of organisation that are deemed to be contractors, and
  - b. the relations between contractors managing and delivering aid programmes is complex, interrelated and interdependent.
2. While ICAI in its report on DFID's Use of Contractors reached positive conclusions, criticism in some of the media about DFID's use of for-profit private organisations has nurtured a public impression that the 9% of DFID's expenditure on contractors<sup>1</sup> is being channelled into escalating profits and high salaries. However, this is a misleading impression because, within this 9% there

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<sup>1</sup> 9% was the proportion reported for 2011/12 in "DFID's Use of Contractors to Deliver Aid Programmes", Independent Commission for Aid Impact, Report 23 (May, 2013)

is considerable variation in the kinds of organisations to whom funds are contracted, and in the ways the funds are then managed and programmes delivered.

3. To consider this in more detail, it helps to distinguish between contract holders and 'deliverers'. Whereas DFID will often seek contractors to deliver the work themselves, DFID also procures contractors to manage funds for work intended to be sub-contracted or sub-granted to other 'deliverers,' e.g. NGOs, community based organisations, research institutions, local businesses and even UN agencies.
4. It is worth noting that sub-contracting through a prime contractor brings advantages to DFID including:
  - a. ensuring due diligence is carried out by the prime contractor and thereby reduces fiduciary risk for DFID, particularly when directed at smaller local entities
  - b. quality assurance of the subcontracted work is carried out by the prime contractor, bringing value for money to DFID.
5. In many cases, DFID will seek contractors to do a combination of both roles, i.e. manage funds that are channelled to other organisations, and deliver parts of the programme. This adds value e.g. in ensuring a coherent use of funds towards a broader strategy, and/or through providing technical assistance towards grant recipients and stakeholders.
6. Options is a contractor that has carried out the roles described above: a deliverer of programmes for DFID, a manager of funds that are sub-contracted or sub-granted, and an agency doing a combination of programme delivery and managing funds.
7. Options is also an example of the diversity of the classification of 'contractor.' Options is a key supplier to DFID and the above roles are typical for this category of DFID contractor, yet Options' business model is distinct from how contractors are often portrayed in that it is:
  - a. A subsidiary of a charity
  - b. A social business: there is no shareholder dividend, all surplus funds are given as gift aid to the charity
  - c. A Small and Medium-sized Enterprise (SME). Note, this relates to DFID's target of achieving 33% direct and indirect SME spend, surpassed in 2014/15 when it achieved 38.8%<sup>2</sup>.
8. To further illustrate the complexity, the ICAI report points out that within the 9% of DFID funds spent on contractors, 36% was to be issued as grants, 9% for research – usually conducted by universities, and 22% on various other services such as transport etc. The proportion spent by subcontractors' teams implementing programmes was therefore much smaller, and in most years this portion includes 'contractor' funds that DFID has directly awarded to a substantial number of NGOs, including Christian Aid, CARE, Save the Children, IRC and other types of recipients such as the British Council, and VSO.
9. The strength of having such diversity across the classification of 'contractor,' is that the roles of organisations can enhance each other through their complementarity. This is illustrated in the roles of Options and its parent company MSI: MSI is a global implementer of services (family planning clinics, outreach etc), and largely a private sector service provider. Options works with governments to harmonise the public sector policy environment which can improve family planning services. The two roles are distinct and complementary, and in some DFID contracts, Options and MSI work together in this way.

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<sup>2</sup> DFID SME Action Plan 2016

10. The key point here is that the proportion of funds spent on services procured by DFID which is awarded to 'for-profit' private companies is considerably smaller than the amount implied through the 9% figure referred to for this inquiry. However, whatever the size of the funds, these companies are quite varied in nature and often make a unique contribution which helps to transform lives and brings results that extend considerably beyond the value of the funds.

## **B. When and where to use contractors**

11. DFID's procurement of contractors is often oriented for **specialist roles** which are, arguably, less well suited for other delivery mechanisms, such as through DFID's own staff or use of multi-laterals.

12. Options generates much of its business through responding to DFID procurements which are seeking suppliers who can provide **Technical Assistance (TA) in the health sector**. The nature of the TA is specialised, involving high level experts working alongside government officials, often embedded in health ministries over a multi-year period.

13. Examples of Options recent and on-going TA contracts procured by DFID include:

- a. Nepal Health Sector Support Programme
- b. Nepal Earthquake Recovery and Transition Programme
- c. Technical and Management Support Team to the Odisha Health Sector and Nutrition Plan, India
- d. Bangladesh Health Systems Strengthening for Urban Health
- e. Partnership Management, Evaluation and Learning function in support of 'Improving Reproductive, Maternal and Newborn Health' programme in Sierra Leone
- f. Technical Assistance to the Reproductive and Child Health Plan, Sierra Leone
- g. Malawi Health Sector Programme – Technical Assistance Component

14. The advantage of this approach for TA is, typically, to catalyse the development and implementation of effective health sector strategies that will facilitate the supply of public health services and enable people's access to the services. To achieve this purpose, a complex balance of strategies is needed, for example to address governance issues and promote strong stewardship for:

- a. managing human resources for health, including cleaning up payroll, ensuring cadres of health staff are deployed appropriately
- b. establishing health management information systems, and appropriate use of data for decision-making
- c. improving procurement and supply chain for essential medicines and equipment
- d. promoting health seeking behaviour in a timely way so that increasing demand for health services is in sequence with the improved infrastructure of health facilities and sufficient supply of services
- e. addressing quality standards to ensure public and private services are appropriate for the needs
- f. developing innovative approaches that can be evaluated and scaled up
- g. adapting approaches to emergent issues, and to the often changing political landscape, often across different ministries that may not have previously coordinated well with each other, and always within the changing 'aid architecture' from the range of development actors.

15. The above examples are not exhaustive but illustrate not only the complexity but also the requirement for the supplier of TA to have a great understanding of the political and social context as well as the ability to work, often discretely, with considerable diplomacy. This requires highly skilled and specialised experts to work within the contractors' delivery model.

16. It also requires that the right kinds of organisation are deployed for the roles for which they are best suited. In responding to DFID procurements for these kinds of TA, contractors will usually work in consortia that may, for example, include a NGO for some of the community engagement strategies, an academic institution for operational research, a local consultancy for specific strategies that require local knowledge of the market, and so on.
17. These roles are not interchangeable. For example, a NGO with a high public profile may be known for campaigning for beneficiary rights; while their strong links with communities makes them a valuable partner with a trusted voice for behaviour change strategies, it also makes them less suited for the 'behind-the-scenes' work within government for influencing change.
18. To illustrate, DFID procured Options to lead the Nepal Health Sector Support Programme involving local and international technical experts to advise the Government of Nepal (GoN) counterparts at national and district level. The experts were indispensable in helping the GoN respond to the devastating earthquakes in 2015, and in the subsequent (and ongoing) transition and recovery programme. This advisory role can be highly sensitive, e.g. when encouraging reforms to procurement for reconstruction of health centres. In an earlier phase, TA in this area led to death threats from cartels who, due to vested interests, opposed reforms to procurement systems. This demonstrates the risks that such work can entail as well as the specialist approaches required.
19. DFID's contract with Options in Nepal includes sub-contracts to NGOs who provide unique services, e.g. rehabilitating earthquake victims with spinal injuries. It also includes local research companies who provide vital data on, for example, the functioning of the health system, access to services by marginalised groups, uptake and use of demand side financing and how health workers are deployed.
20. Options, as prime contractor, manages the overall strategy, works closely with recipient government departments, deploys specialists who bring global expertise, manages the consortium of partners and their sub-strategies, and maintains strong links with DFID and all stakeholders including other donors in the sector wide approach.
21. In addition to the right experts, the contractor needs a high calibre team leader. At the procurement stage, DFID designate a high score for evaluating this role, recognising that the right person can be key for a programme's overall success. In Options' experience, a team leader must, in addition to management attributes, have outstanding diplomacy skills and be able to speak with authority and technical credibility. There is a limited market for such specialist personnel as well as competition from agencies working with other international donors. Procuring a contractor to have responsibility for fielding the team leader and all the right experts is an efficient way for DFID to get the right people to deliver the TA.
22. The contractor is, effectively, a 'one-stop shop' for a range of strategic, management and technical services that would be immensely complex and costly for any donor to try to do with their employed staff. The procurement of TA in Nepal, like other countries, is part of a broader DFID strategy involving sector budget support. This is a key to understanding the use of a contractor for the TA, i.e. it represents a small proportion of the overall investment but is an essential element for quality assuring the broader reform strategy. It necessitates that DFID procure a third party to deliver the TA, i.e. it would be politically unworkable for the donor to be deploying its own staff to manage and deliver the 'behind-the-scenes' influencing role alongside the provision of sector budget support.

### C. Achieving Value for Money

23. In the context of most low and middle income countries' development finance, DFID's use of contractors represents a small investment, but one which can leverage results from mobilising national resources. In 2010, Options initiated a 5-year £17.2m contract intending to improve maternal and infant survival in six African countries through use of evidence to advocate for greater accountability<sup>3</sup>. Academic and local partners and advocacy specialists, led by Options, developed an innovative strategy which, in spite of a limited budget (averaging £500k p.a. per country) brought impressive results. In Mara region, Tanzania, an in-country team of just three people catalysed significant changes: e.g. in 2012 there had been just one government health centre providing Comprehensive Emergency Obstetric and Newborn Care (CEmONC), by March 2016 there were five additional government CEmONC health centres, with more due to be operational by June 2016. The skilled birth attendance rate in 2010 in Mara was 30% (live births attended by a doctor, clinical officer, or nurse-midwife). By June 2015 this had more than doubled to 64%. It is a credit to DFID that they deploy contractors for innovative approaches that catalyse governments to bring life-saving service improvements to their populations.
24. From 2007, DFID used contractors to provide TA alongside their Financial Assistance to health and related departments in the Indian states of Bihar, Madhya Pradesh and Odisha. In 2015, a Value for Money analysis concluded "The parallel and complementary technical support through a dedicated and expert team has helped the government agencies adopt a more professional and evidence-based approach, and there are clear examples of how DFID support has contributed to critical system reforms.... DFID's model of TA (the use of multi-sectoral teams at the state and district levels) represents an efficient and effective approach, particularly in relation to health-system strengthening."<sup>4</sup>
25. Options worked in all three states and led the TA programme in Odisha which included introducing a community-based approach to sanitation to over 150,000 women's self-help groups in the 15 most disadvantaged districts covering a population of 15 million (36% of the State population). In addition, between 2005/6 – 2014, the institutional delivery rate increased from 35% to 82%, postnatal care within 48 hours of birth increased from 30% to 55%, the proportion of children immunised increased from 52% to 75%, and the number of people with sustainable access to drinking water sources increased from 18m to 21.2m between 2008/9 - 2013/14. These results would not have been achieved without DFID using contractors for catalysing transformative health improvements.
26. DFID uses known contractors for a strong reliable response, for example in situations where a rapid action is needed for an emergency situation. An example is the Ebola crisis where Options used its strong relationships with partners in Sierra Leone to work through the crisis to support the Ministry of Health and Sanitation to strengthen laboratory testing and response times<sup>5</sup>. In the Western Area the response time was reduced from 24hours to 12 hours, contributing to improved management of cases and breaking the chain of transmission.
27. DFID sometimes seeks a contractor who can lead sensitive social change issues. An example relates to DFID's £35m end-FGM programme, which includes £28m to the UN Joint Programme<sup>6</sup>, and a research component to Population Council. £6.5m was awarded to Options for the social change communications component known as The Girl Generation<sup>7</sup>, which is designed to

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<sup>3</sup> DFID contract: Evidence for action to reduce maternal and newborn mortality in Africa

<sup>4</sup> Assessing Value for Money in DFID's Health Portfolio for Bihar, Madhya Pradesh and Odisha, India, Final Report, January 2015, e-Pact Consortium

<sup>5</sup> DFID contract for Data Management and Coordination Support to National Laboratories Coordination Centre and District Response Centres

<sup>6</sup> UNICEF & UNFPA

<sup>7</sup> DFID contract: Towards Ending Female Genital Mutilation / Cutting (FGM/C) in Africa and Beyond – Social Change Communications Component

catalyse a wider set of actions and responses across ten countries over five years aiming to end the practice of FGM in one generation. Achieving this ambitious goal needs a specialised contractor who can bring coherence by galvanising a movement of committed organisations to focus on an outcome that has a value far exceeding the cost of the contracted service.

28. DFID's annual reviews for programmes where they are using a combination of contractors alongside multilateral agencies show how it is often the contractor that improves the quality of the overall programme. For example, in Sierra Leone, DFID's Improving Reproductive Maternal and Newborn Health (IRMNH) programme, involving two UN agencies, was failing for its first two years until DFID contracted Options to lead a small management component alongside the larger programme.<sup>8</sup> The IRMNH programme has now exceeded expectations for two years in a row.
29. In summary, DFID's use of contractors takes many forms, and generally represents a much smaller financial investment than is often reported. In the case of TA contracts, the service provided is one for which other delivery strategies are usually unsuitable, and the approach for procuring such services is an efficient use of DFID's resources. Use of contractors enables great innovation, often leverages a result far greater than the cost of the investment, and adds value by bringing coherence and effectiveness to the broader UK Aid strategies.

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<sup>8</sup> Programme Monitoring Evaluation and Learning programme