TECHNICAL BRIEF

Outsourcing Non-clinical Services in Public Hospitals: Achievements and Lessons from Ethiopia

The USAID-funded HSFR/HFG project provides technical assistance to the Government of Ethiopia to implement and scale-up health care financing reforms across the country. The goal is to increase access to and utilization of health services through improved quality of health care and reduced financial barriers.

Project objectives are to:

- *Improve the quality of health services*
- *Improve access to health services*
- *Improve governance of health insurance and health services*
- *Improve program learning*

June 2018

This brief highlights major achievements, challenges, and lessons learned in implementing outsourcing. The analysis contained is based primarily on qualitative information collected through supportive supervision visits, performance review meetings, and a review of Health Care Finance Reform/Health Finance and Governance (HSFR/HFG) project reports. Additional input came from interviews and discussions conducted with finance officers at three hospitals: Felege Hiwot and Debre Markos hospitals in Amhara region and Olancihiti Hospital in Oromia. These hospitals were selected purposefully because they have outsourced more than one non-clinical service. The discussion mainly focused on achievements and challenges they experienced in outsourcing of non-clinical services. Further research is required to have an in-depth understanding of the performance, costs, benefits, and complexity of the outsourcing.

THE CHALLENGE

In 1998, Ethiopia adopted various health care financing (HCF) reforms, one of which is the outsourcing (or contracting out) of non-clinical services in the country's public hospitals. The reform has significantly changed the functionality of public hospitals. Formerly, hospitals were headed by a clinician (the "medical director") who was responsible for all technical and managerial, health and non-health, issues. These directors and senior staff had limited training and experience in overall hospital management, and, as a result, non-clinical service provision was typically of poor quality, high cost, and inadequate quantity. Unclean facilities, lack of beds, and poor/non-existent meal service left patients very dissatisfied. Even when a hospital tried to make internal administrative improvements, for instance, increasing the number of janitors and chefs and offering skills training, weak output monitoring and poor accountability impeded the desired change. Moreover, wasting physicians' time on administrative issues for which they had little expertise compromised their core business of patient care.

THE RESPONSE

HCF reform introduced a decentralized management system in hospitals and health centers: a facility governing board would guide overall leadership, and the hospital manager would manage and administer daily hospital activities. The legal framework that legitimatizes overall HCF reform allows hospitals (and some health centers[1]) to outsource auxiliary services such as laundry, security, and catering to specialized vendors or organizations, leaving hospital management and clinical staff to focus on the core mission of delivering quality health care.

Outsourcing is a relatively new and complex undertaking for hospitals. Unlike other components of HCF reform such as revenue retention and utilization at health facility level, outsourcing of non-clinical services is not mandatory. Rather, it is undertaken on the basis of the potential efficiency and quality gains that an individual hospital expects to realize.

Outsourcing requires a careful cost and risk analysis. The legal framework stipulates a number of steps and prerequisites to minimize the potential risks. Accordingly, hospital management should do a feasibility study to determine if outsourcing meets at least one of the following three criteria: decreases the cost of providing that service, improves quality of the service, and decreases the workload of facility management. Also, hospital management must be able to manage contracts. Further, management must devise mechanisms to manage the social implication of outsourcing on the life of employees and their family members, specifically the implications of loss of that job. The hospital board cannot approve proceeding with outsourcing until these criteria are met.

Another prerequisite is that outsourcing of a non-clinical service abides by the government's finance rules and regulations. This requires facility management to prepare a detailed proposal on how it will undertake outsourcing, including the preparation of service specifications, bid documents, budget, and internal management responsible for monitoring and overseeing day-to-day delivery of the outsourced services.

[1] *Regional legal frameworks that guide the implementation of outsourcing vary by region. Some regions allow outsourcing in both hospitals and health centers, but the majority of regions allow only hospitals to outsource.*

An outside vendor provides catering services in Felege Hiwot Hospital, Amhara region

Bid documents must specify deliverables in terms of quality and quantity with clear indicators to measure performance. There should be a sufficient number of vendors to compete for the bid. These competitors must have proven technical, financial, and organizational capacity, expertise, and experience. This can be ensured through development of strong and clear selection criteria and an open and transparent auction process. Penalties for failing to meet performance standards must be set out.

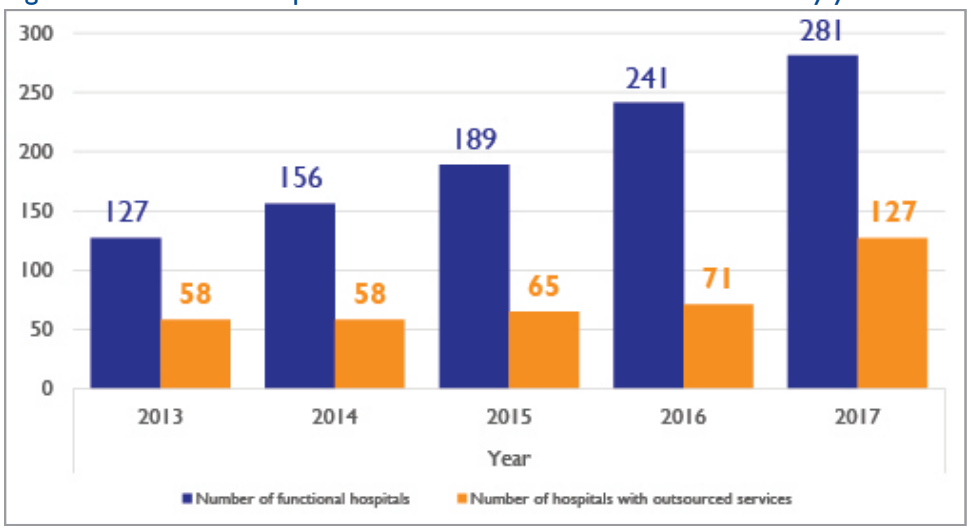
KEY INTERVENTIONS

Over the years, the Federal Ministry of Health and regional health bureaus have led the design and implementing of HCF reform in general and outsourcing of non-clinical services in particular. They have been supported with technical assistance in designing and revising the legal framework, developing the outsourcing implementation manual, and building capacity through training of hospital staff and board members. Support was also provided in developing contract management and performance monitoring systems, supportive supervision, and review meetings on the performance of outsourcing to follow up implementation with key partners and health facilities.

RESULTS AND ACHIEVEMENTS

Although uptake started slowly, 127 (45 percent) of the functional public hospitals in Ethiopia had undertaken outsourcing of at least one non-clinical service by 2017 (Figure 1). This is a significant increase compared with only 58 hospitals in 2013 and 2014. The increase is attributable to increased interest in and capacity to outsource, but also to the number of functional hospitals, which more than doubled over the five-year period.

Figure 1. Number of hospitals that outsourced non-clinical services by year



The number of outsourced services varies. Most hospitals that outsource have outsourced one service; few hospitals have outsourced three or more services. Outsourced services include catering, cleaning, security, laundry, gardening, printing, reception, repair and maintenance of building and other fixed assets, and transportation. Hospital selection of the type/s of services outsourced was influenced by value for money (cost of services), quality of services, management capacity of hospital management, and availability of competitive suppliers.

Hospitals that have contracted out non-clinical services have met all the criteria and carried out the critical steps contained in the legal framework and discussed above.

Some hospitals have established a permanent technical committee to oversee outsourcing; others have used their management committee to do the feasibility study and prepare technical details of outsourcing. Similarly, contract management in the hospitals was done by different bodies.

Effectiveness of outsourcing security and cleaning services in Debre Markos Referral Hospital

Debre Markos Referral Hospital, located in East Gojjam zone of Amhara region, has a catchment population of about 3.5 million people. The hospital has 189 inpatient beds. In 2016/17, out- and inpatient visits to the hospital numbered 158,355 and 14,475, respectively.

Like other hospitals in the country, Debre Markos has benefited from HCF reform, including outsourcing of non-clinical services since 2014/15. According to its finance officer, Ms. Hareg Bogale, improving service quality, efficiency, and cost saving were the main reasons for outsourcing four services: meals, cleaning, laundry, and security. She also noted that outsourcing has increased employment opportunities at the hospital. The number of security officers has increased from 17 to 32 and of cleaners from 34 to 57. Outsourcing has reduced the hospital's administrative burden, as the hospital management now handles employee matters with a few contractors rather than with each and every employee.

Financial data collected from the hospital indicate that the annual cost of outsourcing security was 329,988 birr and of cleaning 660,000 birr in 2016/17, compared with the in-house costs of 251,776 birr and 634,834 birr in 2014/15. That is, the cost of security and cleaning services increased by 31% and 4%, respectively. However, the number of security officers and cleaners increased by 88% and 68% over the same period. As the result, the unit cost of each service has decreased by 30% and 38% and, as Ms. Hareg confirmed, hospital cleanness and safety have improved.

Hareg Bogale, Finance Officer at Debre Markos Referral Hospital

Some hospitals assigned the administrative department, while others established a contract management committee. The contract management committee was routinely engaged in day-to-day follow-up of the transition from in-house to outsourced service provision because of gaps in the vendor's meeting of the hospital's expectations and details identified in the contract. Joint performance review, and open communication and negotiations have gradually improved most partnerships and therefore service delivery. Some contracts were terminated because of the vendor's failure to meet the hospital's service requirements. In some cases, this was due to the hospital's lack of experience in preparing and including in the contractual agreement detailed activity specifications such as standards, frequency, timeliness, and quality indicators; in some cases, it was due to the vendor's inability to deliver a service in the hospital environment.

For many hospitals, however, outsourcing was successful: It controlled cost, improved quality, reduced the internal administrative burden thereby allowing medical staff to focus on the core business of health service production, and contributed to employment generation. Some hospitals also reported that by decreasing the cost of service delivery versus its quality, outsourcing had increased the effectiveness of the outsourced service.

Outsourcing also produced some service-specific benefits: Outsourcing of catering reduced embezzlement in the purchase of food and cooking equipment and wastage that resulted from poor storage of food. Janitorial services improved both the frequency and cleanliness of hospital rooms and wards, contributing to infection prevention and control. In some rural hospitals, outsourced gardening improved the look of the hospital grounds but also contributed to agroforestry practice.

However, systematic cost-benefit analysis of the impact of outsourcing demands details and comprehensive cost calculations that consider things such as the inflation rate, cost of managing the contract (by the hospital), and establishing bench marking, all of which should be looked at in future studies.

CHALLENGES

Ethiopia's hospitals encountered the following challenges in implementing outsourcing:

- Conflict between hospital and service provider(s) regarding the quality of non-clinical services provided, partly because of poor specification in the contract.
- Managing price variations over the life of contract agreement; increases in input prices frequently increased the cost of the outsourced service.
- Absence of competitive vendors, especially in remote, rural areas.
- Weak recordkeeping and data management by hospitals; this prevented hospitals from documenting the overall achievements and cost-benefit gains and losses from outsourcing.
- Limited internal capacity to prepare technically feasible and all-binding contracts.

LESSONS LEARNED

- Properly defined and specified performance indicators improves contract management and minimizes conflicts.
- Outsourcing can enhance accountability in service delivery as the vendor strives to meet performance standards of the contract.
- Consensus among all actors affected by a contract agreement facilitates compliance.
- Well-executed cost and risk analyses enhance the sustainability of outsourcing by improving the design and content of contract agreements.

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