

# Competencies in Local Government Contracting Out: A Critical Review

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## Abstract

This paper reviews the current literature on contracting out competencies and capacities in order to ensure successful implementation of contracting out initiatives. After a brief discussion on concept, this paper illustrates the various competencies and capacities needed during contracting processes. The complete faith of the neo-liberal development paradigm in market-friendliness and contracting out ignores the competences needed to guarantee effective contracting out. The question of which sector or combination of sectors is best at offering public services have become more relevant and controversial overtime. Contracting out of the provision of public services is part of efforts to reconfigure state-market relations in order to give more prominence to markets and the private sectors. Applying the competencies approach helps determine which model of provision will provide optimal public services to citizens. This paper argues that the effective and efficient management of the relationships with the private sector by government agencies requires a solid foundation of project management and policy competencies. This study found out that legal, regulatory and policy, organisational and individual capacities are cornerstones of effective contract management process. The Bowman et al.'s (2010) Competency Triangle model of Public Service Professionalism informed remarkably the study.

**Keywords:** contracting out, private sector, public sector, competency, capacity

## 1.0 Introduction

Since the 1980s, public services have undergone far-reaching: privatisation, contracting out and the introduction of market mechanisms have made important changes to their nature and structure. The role of the private sector in providing public services has grown significantly. That Zimbabwe's local government system is undergoing a deep service delivery crisis is now beyond dispute. Contestations also centre on what is to be done to remedy the dire situation. Some policy makers have advocated for contracting out as the panacea to poor service delivery in Zimbabwe. However, the spreading contracting reforms require enhanced technical, ethical, organisational and leadership competencies. Each of these competencies is needed in all three arenas of public service: government agencies, non-profit organisations and private vendors (Bowman et al. 2010: viii). Private sector is looked at as the model for good budget and public financial management practice. The question of whether or not a service is suitable for contracting out can be framed within a wider understanding of the responsibilities and roles of the state. Core functions of government include: the exercise of sovereignty such as approving and enacting state law, setting taxes and conducting international relations, security, gathering intelligence, defending the nation and engaging diplomacy (Batley and McLoughlin 2010). These functions are highly political. The only option might be to contract out specific expertise to support government delivery. Policy making aspects such as setting the policy framework, and making decisions about functions or services should be done by government. Whilst the state may contract out some aspects of budget design, it should not contract out decisions about budgetary allocations or priority setting. Those are public decisions that should be made by elected officials because they go to the heart of the social contract between state and citizen (OECD, 2008).

Furthermore, the internal administration of the state, for example, public financial management, legal services and the management of natural resources needs capacities and competencies in order to accomplish intended goals. Contracting out internal aspects of these functions can be risky because it can provide privileged access to government information.

This article examines competencies needed for effective contracting out. Public service today must be led by consummate professionals steeped in both technical and ethical competencies (ibid) to meet the complex governance challenges of the 21<sup>st</sup> century.

## 2.0 Literature Review

This section explains the importance of the term competencies, summaries the changing context of public service, contrast old and new characteristics of its operation and clarifies its contemporary role. It then analyses the various competencies needed to make contracting out successful.

### Contracting Out

In a free market society, the public sector should only be in a business of providing services which are not freely available elsewhere. In practice, this is not the case and many opportunities exist for obtaining savings by transferring services from the public to the private sector. Contracting out is the term used to describe the

situation where an outside party is hired to carry out the work involved in providing a service but overall control of standards and accountability to the public remain with the authority (Butt and Palmer, 1985:136). Contracting out refers to “public functions, public duties are externalised, handed out, to entities which are not public authorities by way of contracts” (Auby 2009). In English law, a statute issued in 1994, the “Deregulation and Contracting out Act”, laid down a list of core public functions which can’t be contracted out: among them, functions interfering with individual liberty and those entailing the power of entry, search or seizure into or of any property.

In the United States, the Fair Act of 1998 defines inherently governmental functions which cannot be externalised: among them, those which can affect the life, the liberty or the property of private persons. The Supreme Court jurisprudence also suggested that some governmental functions, such as tax collection or fire and police protection might be non-delegable (Freeman 2006:83).

Savas in his 1980 article on “Comparative Costs of Public and Private enterprises in a Municipal Service” distinguished seven alternatives to the direct production of services in the public sector. These are listed in the table below:

**Alternatives to the Direct Public Sector Provision of Services**

Alternatives	Application
a) Inter-governmental Contracting	Computer services provided by one agency or department to another, a local authority parks department maintaining the grounds of a health authority
b) Private Sector Contracts	Laundrying, building maintenance, cleaning, contract hire of vehicles
c) Franchises	Catering, printing, advertising
d) Consumer Vouchers	For accommodation, meals and transport
e) Private Purchases by consumers	When brand-named medicines are preferred to generic named alterations
f) Supply through voluntary arrangements	Sheltered housing is provided and entirely funded by charities and religious communities
g) Self-service by consumers	A health authority suspends the use of its ambulances in collecting out-patients for hospital or clinic treatment

Source: Savas 1980

Responding to the question “What services should be Considered for Contracting out?” Butt and Palmer provide nine areas that management might consider as having potential for contracting out:

- i. Capital or labour intensive;
- ii. Partially contracted to the private sector or partially or wholly contracted out to other public sector bodies;
- iii. Joint/shared responsibility with public, private or voluntary;
- iv. Self-contained activities;
- v. Commercial or quasi-commercial activity;
- vi. Seasonal activity;
- vii. Definable and measurable levels of performance;
- viii. Lack of capacity for present/anticipated service demanded; and
- ix. Change in method/practice (Butt and Palmer 1985:141).

Within these broad areas of specific services, local governments and health authorities have contracted out to the private sector the following: cleaning, laundrying, maintenance of buildings, plant and equipment, car parking, refuse collection and waste disposal, purchasing and suppliers, sheltered housing, transport, catering, advertising and publicity, recruitment and training, management services, security and estate management.

**Preparation and Evaluation of Tenders**

Great care must be taken when seeking competitive tenders for contracting out a service to the private sector to safeguard the longer term interests of an authority, not only in response to the financial aspects but in terms of quality of service. The object of the exercise should be to obtain a stipulated standard of service for the best possible price. As such the tender document should:

- i. Clearly define the characteristics and level of service required; and
- ii. Request information in such a way as to facilitate the comparison of one tender with another including one prepared for the retention of the service in-house

As a general rule, all tender documents should clearly state the definition of terms and responsibilities, legal liabilities, terms of payment; tax matters e.t.c. Penalties should be clearly stated. Many public sector bodies now require the contractor to deposit a “Performance bond” with themselves or the third party. In cases of default, the hirer can simply liquidate the bond in order to seek compensation. If the contractor is a subsidiary of a parent company the contractor should be required to submit a deed of guarantee by which the parent company indemnifies the authority against losses, damages, costs and expenses arising as a result of any defaulting on the

contract by the subsidiary firm.

Tender documentation must clearly state how price fluctuations due to inflation are to be dealt with. Either published index is used, for example, the Retail Price Index or the public sector body negotiates with the contractor as to what agreed price fluctuations can be implemented on stated review dates. Such measures are necessary in order to ensure that the price changes claimed by the contractor are fair and reasonable.

In evaluating tenders, the first consideration is the capability and technical resources of the potential contractors.

### **Transitional arrangements**

The transitional period between the awarding of a contract and its commencement date will normally be a period of intense activity for an authority. The work involved relates to two main areas of concern, namely, termination of the existing in-house provision and the start of the contractor's operations. One of the most important aspects of terminating the in-house provision is the negotiations with existing staff that are to be made redundant at the commencement date of the contract. The other major task associated with the implementation of the contract includes discussions with the contractor and the establishment of the machinery necessary to manage the contract after implementation. It is important that a good working relationship is established between an authority and the contractor's representative who should have a detailed knowledge of the authority's requirements before operations start.

In setting up the machinery for supervising and managing a contract, particular attention will need to be paid to the setting up of suitable systems for financial control, financial reporting and performance monitoring. An authority should ensure that a contractor provides any deed of guarantee, performance bond and certificates of insurance required under the terms of the contract.

Supervision of contracts is very important. Management must have sufficient resources to oversee the operation of the contract. The effective management of contracts after letting is by no means a soft option. Laing (1982) discusses this point:

*".....catering used to be quite commonly contracted out, but because of lackadaisical management, such contracts fell into disrepute. If contracting out is to be more successful in the future, it will have to be seen as an opportunity for managers to apply performance indicators and tighter quality control and to focus on broader management issues at the same time. Some administrations feel that the service is capable of this, others have doubts. There are parallel doubts about the ability of private contractors to deliver what they promise. In an effort to demonstrate a new and professional approach model contracts for laundry and catering services have been developed by trade associations.*

All these issues alluded to show that contracting out is a complex undertaking which requires strong capacity in order to be successful. For instance, the contract should be clear about what outputs are expected and the key indicators that will be used to monitor the contract. For example, Afghanistan's Ministry of Public Health contracted non-governmental organisations (NGOs) to provide a basic package of health services. The Ministry developed a balanced scorecard to regularly monitor the progress of the contractors against six domains e.g patient perspectives, staff perspectives, capacity for service provision, service provision, financial systems and overall vision. For these domains twenty nine (29) indicators and benchmarks were then developed (Abramson, 2009).

### **Why does Contracting out require Capacity?**

Capacity is defined as "skills and aptitudes, resources, relationships and facilitating conditions necessary to effectively achieve an intended purpose" (OECD 2009). The capacity may manifests in the enabling environment for contracting out which includes: the legal framework, the regulatory and policy framework and human resources management.

- Legal framework: these are the laws that enable contractors to provide government services such as anti-corruption laws, specific laws governing the contracting out of government services, laws and regulations on procurement, contracts and obligations enforcing a judgement, standards, business organisations and non-governmental organisations, trade, property, technological transfers among others. The government should formulate statutes that ensure transparency, fairness, competition and accountability in the procurement process. Transparency helps to build confidence and trust between the government, the community and suppliers. Competition is important for driving suppliers to offer tenders that provide good value and sound technical solutions at competitive prices. Accountability is critical to ensure fairness in the procurement process so that the intended results of the contract are achieved.
- Regulatory and policy framework: provides specific guidance and procedures for implementing the statutory requirements of the legal framework. Questions that can be asked include: does the legal framework facilitate contracting out? Does the legal framework provide appropriate authorities to support legal award of contracts? Does the framework include procurement laws and other laws that require fair and transparent processes and that can be easily adopted by the agencies? The procurement

policies provide practical guidance to policy makers. This includes establishing protocols and procedures for managing, designing, tendering and implementing the contracts in accordance with legal and regulatory.

Table 1 below gives the supportive administrative and regulatory structure for effective contracting out.

**Table 1: An Enabling regulatory and policy environment for contracting out government services**

<p><b>An independent regulatory</b> body with authority within government: its responsibilities should be spelled out in laws and regulations. Key functions, including advice to contracting entities, monitoring procurement, managing procurement information and statistics, and supporting capacity development, can be done by a centralised agency or assigned to different agencies</p>	<p><b>Institutional development capacity</b> to support and monitor the performance of the procurement system. To achieve the necessary capacity, a country must have a sustainable training programme.</p>
<p><b>Procurement operations</b> which are of a sufficient quality to make procurements efficient. This includes proper management in the agencies dealing with procurement and ability to comply with procedures for inspection, quality control and monitoring</p>	<p><b>Private sector capacity to respond to public procurement.</b> Private sector ability to participate in procurements and provide services should be examined carefully. Capacity includes a range of firms with expertise, management abilities and access to credit. In addition, there should be effective mechanisms for public-private partnerships such as dialogue and a legal framework for PPPs</p>
<p><b>Control and audit systems:</b> which include a framework for internal and external control and audit of public procurement operations, a system and auditors that can ensure quality audits</p>	<p><b>Measures to prevent and detect fraud and corruption,</b> which should include all stakeholders in the procurement system. Procurement authorities must be responsible for running and monitoring a transparent and effective system. The organisations with audit authority and legislative oversight must be responsible for detecting and addressing irregularities or corruption.</p>
<p><b>An appeals mechanism</b> that provides for transparent decision-making and efficient and fair review and ruling by an independent body with enforcement authority and capacity. The private sector should have a secure mechanism to report fraudulent, corrupt or unethical behaviour.</p>	<p>Mechanisms for dispute resolution</p>
<p><b>Procurement planning and budgeting capacity.</b> Procurement plans should be based on the outputs and outcomes that government agencies need to achieve in a particular period. These plans in turn drive budget decisions</p>	

**Source: OECD 2010:68**

In addition to the above, Lusthaus et al. (2002) argue that governments should assess organisational capacity and individual capacity. The roles of different government agencies should be determined to assess whether there are procedures, leaders and staff to guide the procurement process and apply the legal and regulatory frameworks. At the organisational level, a government needs to be able to:

1. Assess the desirability and requirements for contracting out including costs and benefits, opportunities and risks;
2. Design contracts including specifying the scope of work, price estimation, payment terms, performance criteria and benchmarks for monitoring;
3. Manage the contract-setting up and successfully executing tenders, contract administration and financial payment systems and procedures; and
4. Monitor and evaluate the contract and should possess accountability and enforcement systems and dispute resolution techniques (ibid).

Implied in these facts is that systems, processes and procedures should be sufficient to manage the risks of corruption throughout the contracting and contract management process.

The individual capacity can be assessed in terms of:

1. Political and leadership capabilities; and
2. Technical skills and experience (Abramson (2001).

Governments need champions who can provide vision, anticipate and address obstacles and build

support for contracting out. One element of capacity assessment includes examination of the number, qualifications, skills level, availability and distribution of staff capable of undertaking the various tasks associated with contracting out.

### **Competencies**

The concept of competencies has been in use since the 1970s, when McClelland (1973) developed the idea that particular sets of skills and/ or personal qualities would be better indicators of job performance than standard intelligence tests. Focussing on public managers (Virtanen 2000) distinguishes five (5) competence areas: task competence, professional competence in subject area, administrative competence, political competence and ethical competence. According to Abramson (2009) there are three capacities needed for successful contracting out. These include:

- Individual capacity-experience, knowledge and skills human resource management
- Organisational capacity-structures, processes, resources and initiatives. Contract design with activities such as writing contracts, specifying services and estimating costs require organisational capacities. Also management, i.e. setting up administrative and financial systems, monitoring and evaluation such as information systems and resources to perform oversight functions need excellent organisational capacity.
- The enabling environment-institutional framework of public sector policy, laws and civil services rules. The structures of power and influence among stakeholders provide enforceable rules and legal, regulatory and policy frameworks. Without these, it is difficult for public sector organisations to set standards, ensure contractual rights and therefore, gain the confidence of contractors (Batley and McLoughlin 2010).

### **From old to new Public Service**

As the boundaries among government, private and nonprofit sectors become increasingly blurred; public services take on a broader meaning. Public service no longer refers exclusively to tasks performed by government. It now involves work with nonprofit organisations and private-for-profit organisations. This, multisectoral service providers, mobility or sector switching among employers and the commitment of individuals to make a difference all animate the tectonic shift occurring in public service (Light 1999, 2008). Building on this characterisation (Sherwood 2000), public service is “the people establishment” that delivers services to citizens, promotes the collective interest and accepts the resulting responsibilities.

Local governments create single-purpose entities to provide special services such as water and sewerage and increase the number of contracting and networking arrangements. Public service contracting out is most often used in services such as waste collection, building maintenance, bill collecting, data processing, health and medical services and street cleaning and repair (Andrisani et al. 2000). Contracting out is an opportunity to those who want government to operate more like a business that promises to be cost-effective and quality conscious. It is a threat to those public employees who doubt that government can be run like a business and fear job losses and service deterioration.

### **New Public Service**

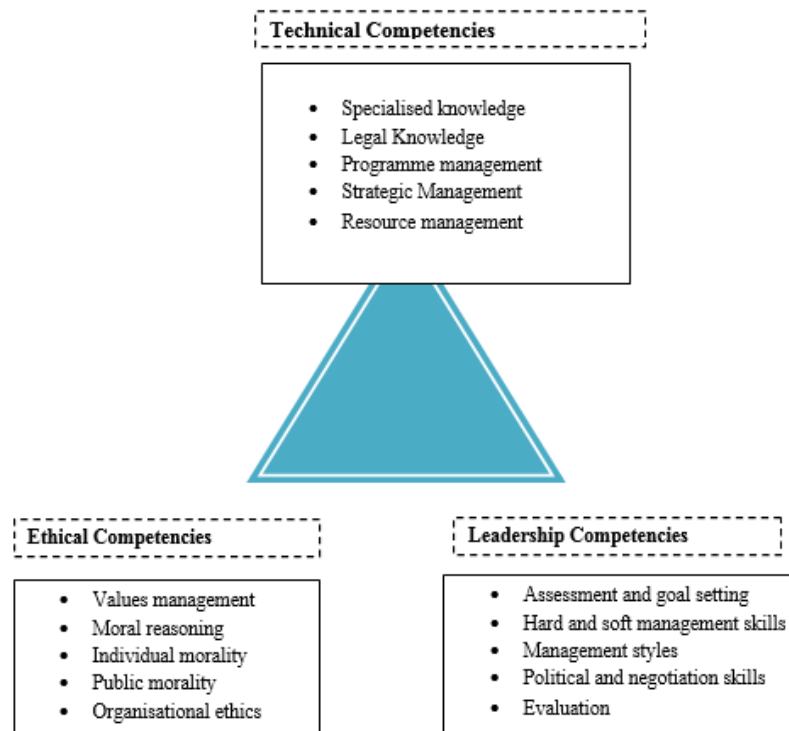
This is referred to variously as “the new governance”, “third-party government”, “government by proxy”, “indirect government” and “the end of government as we know it” (Kamarch 2007). Frederickson (2003:11) observes that those who act for the state are “clothed with the public interest” and “covered with a public purpose”. As government bureaucracies reinvent themselves and share service provision with multiple agencies, nonprofit groups and commercial organisations, there is less emphasis on following rules and more on performance and productivity (Kamarch 2007).

The transition from command and control decision making based on hierarchical authority structures to indirect, web-like relationships requires a new set of managerial skills: the ability to establish networks and public-private partnerships, write contracts, oversee service providers, compete for scarce resource, save costs without undermining productivity, disperse funds and audit finances, measure and review performance and master the technicalities and legal implications of new employment and salary schemes (Bowman 2010:16).

Government oversight is crucial to curbing excesses as evidence by massive accounting fraud at flagship corporations in Zimbabwe, such as, Air Zimbabwe Pvt Ltd, Harare City Council, Zimbabwe National Authority and Road Administration (ZINARA). The challenge of today’s public servant, whether, located inside or outside of government, is to be politically adept and attuned to the conflicting currents that must be navigated. Public servants must also be professionally astute, possessing the requisite technical, organisational, ethical and leadership skills to do right things and to do things right. Some of the key capacities needed for effective contracting are discussed below.



### The Competency Triangle of Public Service Professionalism developed by Bowman et al. 2010:23



Source: Bowman, West and Beck 2010:23

#### The Technical Competency

The technical expertise includes the scientific knowledge necessary to perform a task, an understanding of the legal requirements related to one's field of expertise (how a Harare City Council secures bids to contract out refuse collection, water services) and the institutional savvy necessary to attain objectives (monitoring mechanisms).

Detailed knowledge of legal requirements is also essential because laws and regulations establish programme standards and guidelines for conduct. Technical management skills involve knowing how to accomplish tasks inside an organisation, especially programme, strategic planning and resource management. Technical competency as defined by scientific knowledge, legal acumen and organisational management is a defining feature of professionals. The legal knowledge, for instance, the Constitution of Zimbabwe Amendment (No. 20 of 2013) is critical.

Technical risks are a significant challenge to the success of contracting out. They arise when capacity or information, legal, procurement or regulatory systems are inadequate or where markets operate imperfectly (Batley and McLoughlin 2010). This is illustrated below by Tokwe-Mukosi floods disaster.

### **Programme Management: Tokwe-Mukosi Floods**

The construction of Tokwe-Mukosi began in 1992 and was halted in 2002 and resumed in 2009 and missed several deadlines. The main contractor was Italian Salini Construtorri and had a great reputation as builders of Kariba Dam and major international projects but problems started when Zimbabwe National Water Authority (ZINWA) failed to release funds to the contractor and ZINWA contracted incompetent local sub-contractors who took money from ZINWA and fail to deliver services on site.

ZINWA had over 14 uncompleted dam projects country-wide all contracted to the same inefficient local contractors, leading to jams in the projects, resulting in projects costs escalating due to interests charges, machinery idle on site for long period at Tokwe-Mukosi Dam, which accrued US\$ 46 million interest between 2000 and 2007.

A Parliamentary committee report on the capacity of local contractors engaged by ZINWA observed that:

“ZINWA indicated during oral evidence that indigenous contractors usually bring equipment which would break down in two or three days time. In such an event, they are given advance payment, but still do not repair the broken equipment. ZINWA resorts to engaging a sub contractor with equipment to assist the non performing contractor instead of cancelling the contract. As for penalties for failure to deliver the results, ZINWA indicated that for indigenous players they usually did not have the resources to pay the penalties while foreign contractors, had no such problems” (Mugabe, [www.changezimbabwe.com/index](http://www.changezimbabwe.com/index))

- Tokwe-Mukosi Dam Construction overflow
- President Robert G. Mugabe declared national disaster area, in terms of Subsection 1 of Section 27 of the Civil Protection Act, Chapter 10:6 on 9<sup>th</sup> February 2014, to unlock government resources
- The government created a Cabinet Committee on Emergency Preparedness and Disaster Management comprising eight (8) Ministries, namely, Ministry of Finance and Economic Development, Ministry of Defence, Ministry Lands, Ministry of Environment, Water and Climate, Ministry of Agriculture, Mechanisation and Irrigation, Ministry of Health and Child Care, Ministry of Foreign Affairs and Ministry of Public Service and Social Welfare.
- The Cabinet Committee was mandated to supervise, mobilise resources, information management and dissemination
- The army responded heroically
- setting up a remote command center
- providing a sense of order amid the chaos of the catastrophe
- offering a vast array of disaster services such as temporary housing, medicines, clothing, counselling, hotlines
- coordinating the effects of a vast network of agencies, levels of government and individuals
- The Ministry of Local Government, Public Works and National Housing brilliantly rose to the occasion despite the enormity of the calamity and the extraordinary task of coordinating so many systems amid warlike conditions

The Tokwe-Mukosi floods crisis exposed government’s lack of preparedness to respond to national disasters in ways that minimise danger and safeguard people’s basic rights. The Ministry of Local Government through the Civil Protection Unit (CPU) should be proactive by preparing well for the threat of floods. Despite early warnings of the impending disaster, the government was found wanting in terms of preparedness and disaster management. Disaster preparedness includes readiness and ability of society to forecast and take precautionary measures in advance of an imminent threat, response to cope with a disaster by organising and delivering timely and effectively rescue relief. Preparedness requires development of early warning mechanisms, plans for evaluation, the education and training of officials and people at risk, the establishment of policies, standards and organisational arrangements.

These concerns supersede technical matters and present ethical and leadership challenges such as maintaining a sense of urgency without creating panic. Leadership is needed to provide vision and political will. Government should invest in technical capacity for quick and accurate assessments of disaster situations and a rapid mechanism to activate support from the international community.

### **The Ethical Professional**

Competence includes “personal honour”, “fitness of character” (George Washington) or a view shared by Theodore Roosevelt, who believed that “to educate a man in mind but not in morals is creating a menace to society”. The obligation and privilege to uphold this ethos continue in today’s multisectoral public service. Leaders without basic ethics skills are professionally illiterate (Bowman et al. 2010:69). This is what makes the recount execrable scandals in government organisations so devastating. Many public sector managers in a variety of fields-management, law, policy accounting, banking have demonstrated a lack of understanding of this fundamental precept. Creating an ethical institutional culture is no more easily achieved than resolving

individual moral conundrums (White and Lam 2000; West and Berman 2006). The cornerstone of a comprehensive ethics programme is a code of ethics (West 2009). The challenge of every public servant is to resolve to act solely in the public interest and to shun the many opportunities that threaten this resolve.

### **Leadership Competency**

The new public service milieu encourages agencies to work with private firms and non-profit organisations to attain public goals. The networking of resources and tasks, as well as the contracting out of services, means that managers and leaders must possess cross-organisational and cross-sector skills, the ability to motivate different groups of employees, the flexibility to adapt to different work environments and the capability to oversee the integrity of complex processes. The leadership cycle has the following steps: assessment and goal setting, application of hard and soft skills, personality traits, application of style/style variations, application of political and/or negotiation skills and evaluation of self and organisation/environment (Bowman et al 2010:105).

Assessment and goal setting: effective leaders possess the analytical skills necessary to review large amounts of information and identify important operational and motivational trends (Bowman et al. 2010:104). These include task skills, role clarity, innovation and creativity, resources and support services, employee inclusiveness and productivity, cohesiveness and cooperation, work organisation, performance strategies, organisational culture and external coordination and adaptability (Yukl 1998).

Application of hard skills, soft skills and personality: Hard skills are the technical expertise and management skills discussed earlier in technical section. Leaders must master a specialised field of knowledge and the legal and organisational context within which it is applied as well as a wide array of managerial skills (Bowman et al 2010: 106). Hard skills are necessary for excellent leadership. Emotional intelligence or a set of soft skills involves the ability to use one's own emotional maturity to relate to and communicate with others. Interpersonal skills for understanding others' interests and motivation, listening to employees' concerns, leading by example, fostering teamwork, creating a productive work atmosphere. Leaders should have good written, verbal and nonverbal communication skills. Pertinent personality attributes include physical comportment, self-confidence, decisiveness, resilience, flexibility, energy and drive, a willingness to assume responsibility and motivation to excel (ibid: 107).

Use of political and negotiation skills: leaders require political skills to avert or successfully counter opposition and negotiation skills to settle conflicts of interest that arise both within and outside of their organisation. Political skills like exuding a sincere belief in a set of goals, engaging others to invest themselves in attaining those goals, separating self-serving politicking from substantive opposition are needed by leaders (Bowman et al. 2010:112). The most important point is that a leader must decide when to use political skills to counter opposition to stated strategies and goals and when to negotiate on redefining the strategies or even the goals themselves.

### **Competencies Triangle: Case Study**

#### **Trash Collection: Harare City Council**

In Zimbabwe, the Harare City Council contracted out waste management services to private contractors in 1997 hoping that improved services to residents could be offered. However, it did not work out as expected (Tevera et al. 2003). Limited competencies and capacities as well as attitudes made it quite controversial whether privatisation, which was used in developed countries, could be adopted in poor countries. Professional technical, organisational, ethical and leadership skills are needed in developing the most effective delivery systems and preventing disruptions in service that can negatively affect quality of life. Harare City Council lacked these competencies. The project was abandoned barely two years after the contract was let.

Harare City Council officials were supposed to ask themselves the following questions regarding the sources of public service provision: which delivery model is technically superior and provides the best quality? How can ethical behaviour such as accountability for cost, dependability and cleanliness be ensured? Who can provide leadership necessary to engage the most reliable service provider while addressing the needs of those who receive the services? Contracting out public sector services is a form of privatisation which has political undertones.

Arguments for public provision center on the efficiency and effectiveness of economies of scale, the dependability of government. The private sector is said to have the capacity to marshal the superior efficiency and sharper cost-consciousness of entrepreneurs. Contracting out has the following benefits:

- Improved economy and productivity through competition and market forces and decreased interference from trade unions\
- The public sector is less efficient than the private sector because of interference from government regulations
- Cost savings (up to 20 %) with no deterioration in quality of service (Butt and Palmer 1985).

However, arguments against contracting out include:

- Cost savings are offset by increased contract administration costs and other hidden costs. Furthermore, contracting out is not cost-effective if local contracting out industry is not truly competitive.



- Technical expertise is costly or diluted. Contracting out demands qualified preparation of tender documents and close and qualified supervision.
- Against smaller government and privatisation-government exists in the economy to deal with market failure, wealth distribution and social equity, so-called inefficiencies in government are there to meet community service obligations, protect the environment (ibid).
- May stimulate fraud and corruption in the procurement process and during supervision
- Some critics have argued that the claims of citizenship are being subordinated to a customer culture inimical to public service (Marquand 2000).
- May displease civil servants and consequently meet resistance from unions (Sansom et al.2003:12).

In the public domain, goods should not be treated as commodities or proxy commodities. The language of the buyer and seller, producer and customer, does not apply in the public domain nor do relationships which that language implies. Doctors and nurses do not sell medical services, students are not customers of their teachers, policemen and policewomen do not produce order. The attempt to force these relationships into a market mould undermines the service ethic, hollows out the institutions that embody them and robs the notion of common citizenship of part of its meaning (Marquand 1999). From these discussions one may be prompted to ask the question: What is the goal of public administration? Most supporters of contracting out or private sector tend to forget the goal of public administration. Public administration does not seek to minimise expenditures that but to implement public policy and to make democracy work. Issues of accountability can also be raised. "The growth of contracting out is a particularly significant development as it raises serious questions of accountability and control within local communities. It is not immediately obvious, for example, how the electorate's wishes can be translated into action by a newly elected administration that is forced to honour the contracts of its predecessors and therefore has no control over the level or type of services provided" (Ascher 1987:20). Contracting out accentuates and exposes existing accountability problems. Clear forms of accountability and redress are a precondition for the legitimacy of contracting out.

Accountability means a capacity to call an authority or department into account by having its senior officials answer and explain their conduct. Clearly, contractual relationships do not operate in the same way as administrative channels but that does not mean that contracting out does or should reduce departmental accountability. The controversy stems in large part from confusion over the difference between responsibility and accountability. Where a public sector organisation transfers responsibility for certain functions to the private sector, it does not relinquish accountability for them. In the words of the Australian Industry Commission (1996:102), "whatever the method of service delivery, the government agency must remain accountable for the efficient performance of the functions delegated to it by the government".

An interesting example of changing preferences is that of Hwange Colliery Hospital illustrated in the Box below.

Since 1980, the government viewed the financing and provision of health care services to be its political and social responsibilities and almost closed down the private for-profit sector (Mudyarabikwa and Madhina 2000:25). Attempts to contract out public services were viewed as overtures towards privatisation of health services and this was treated accordingly with suspicion by the top public policy makers.

### **The Case of Hwange Hospital**

*It is not uncommon in Zimbabwe for large industries entities to own hospitals independently but they consult with the government on policy matters. One such facility is Wankie colliery Hospital (210 beds) which is contracted by the government to service public patients in the remote district of Hwange and to act as referral center for the small Victoria Falls Hospital.*

*The hospital is at epi centre of the country's two major utilities; the Zimbabwe Electricity Supply and Authority (ZESA) and Wankie Coal Mine, employing large populations between them.*

*The Wankie Colliery Hospital has experience in contracting with both the private and public sectors. Firstly, the hospital is contracted by two 'private' entities, ZESA and the National Railways of Zimbabwe (NRZ) to provide health care services to employees and their departments. The purchasers are contracted to pay a negotiated but full cost fee for treatment and related expenses incurred by employees and their dependents. The hospital's billing system is one of the best offered by private hospitals and minimises patient losses. Prompt and regular reimbursement of expenses to the hospital reinforces the hospital's commitment to the contractual arrangement.*

*Secondly, the private hospital is contracted with the government through the Ministry of Health and Child Welfare (MoH&CW) purchasing clinical services for public patients because there are no government facilities in the district. The nearest governmental hospital is 100km away but serves less than half the district population. The Colliery Hospital is ideal for contracting with because it has excess capacity that can accommodate public patients together with target employees and dependents. To sustain the contract, the MoH&CW gives the hospital the status of a direct level facility and thereby challenges the provider to offer services of the variety and quality expected of that level. The contract provides for the Ministry to reimburse the hospital at a negotiated full cost fee as is paid by the private utilities.*

*The contractual relationship between the public purchaser and the provider is strained by the latter's prices that seek to recover costs from the employment of expensive equipment. The purchaser views the prices as incomparably higher than charges at government district hospitals. On a per case basis, MoH&CW reimbursement to the providing hospital. At times, public sector managers discourage patients from utilising the Colliery Hospital in preference of the cheaper but distant government hospital at Victoria Falls. This distorts hospital utilisation and more importantly, discourages private providers from contracting with the public sector.*

*Source: Mudyarabikwa and Madhina, 2000.*

### **Lessons Learnt From Hwange Colliery Case**

1. Managerial capacity: the government needs health managers, who have knowledge and skills in the field of health financing and health economics. Health managers need to be able to promotionally relate to private for-profit health providers in particular and acknowledge them more as collaborators rather than competitors in the provision of services.
2. Financial capacity: the government should encourage private for-profit providers and individual consumers to provide and finance health services at minimum financial loss to the fiscus.
3. Capacity for policy statement: instead of relying on a general understanding and acceptance of the importance and contribution of the private providers, the government needs to show its political capacity by making an open statement stating its position in relation to private for-profit health providers.

Citizens appear to be relatively indifferent as to the source of utility services, as long, as the quality remains high, cost low and corruption absent. They expect services to be technically proficient (timely and clean) and ethically fair (cost related to services provided and no monopolisation).

Though comfortable with different service provision models, the public does expect that the government will exercise leadership in finding the best and most cost-efficient provider and in maintaining and regulating the service over time.

The question of which sector or combination of sectors, is best at offering public services has become even more relevant and controversial over time.

Applying the competencies Triangle can help determine which model of provision-public, private or public-private partnerships will provide optimal public services to citizens in particular communities.

Technical: It is important to determine which sector can provide the best technical skills to deliver utility services. The choice involves the quality of the product (clean water, tidy trash collection) as well as

efficient and reliable delivery (no power outages, no accumulation of trash) and viable contingency plans (fair water rationing in case of droughts). Included in the technical competency b is cost-effectiveness especially given the pressure on government budgets. Local leaders must ask which sector can provide the best service at the lowest cost. Inserting competitive bidding into the equation can help encourage improvement in technical skills while increasing cost-effectiveness.

**Ethical:** whenever private companies participate in or take over service provision, there is concern that the gain of technical expertise will be attained at the cost of public control and accountability. What role should government play in the economy and society? Critics claim that privatisation can involve the misuse of public monies (given the absence of oversight), a lowering of accountability standards (because private companies are more concerned with shareholders than with citizens), a reduction in wages and benefits (due to commercial cost-saving measures) and the laying off of government employees. Ethical questions that center on the fundamental role of government and guarantees of accountability, transparency and fairness pervade discussions about public services provision.

**Leadership:** leadership skills are crucial in identifying new models of service provision, addressing the ethical problem that arise and engaging the public to generate support for what may be untested but promising methods. Leadership skills-injecting competition into the process to improve the cost-effectiveness of service s ensuring that city workers displaced by privatisation find comparable employment and stipulating contractual obligations whereby firms hire some displaced workers and ensure comparable wages and benefits. The challenge for leaders is to enhance accountability and transparency when private firms participate in public policy.

The debilitating industry, corporate and economy-wide crises can be averted by application of the technical, ethical and leadership competencies.

## Conclusion

The effortless truth is that contracting out and contract management have come to characterise the modern public sector. Various governments persist to require that public sector agencies attempt to maximise overall “value for money” for citizens. For contracting out to achieve the set objectives and goals, the discussed competencies and capacities should be built first. Professional management clothed with all the necessary competencies is a crucial determinant of local government performance. And it is important to stress that there is nothing automatic about contracting out processes being widely adopted or forcing a coherent new direction for government. While it is easy to argue that private markets are superior and efficiencies will result from contracting out government activities, implementation is not simple. To make contracting out actually work is different from thinking it is a good idea, there are awkward details to be worked through.

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