

# Risk and Outsourcing to NGOs

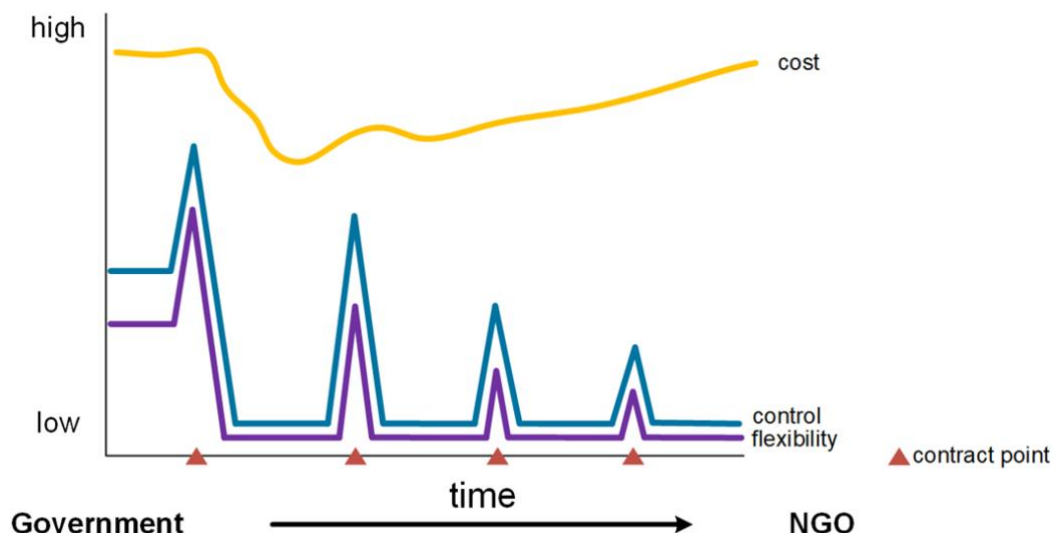
Public sector organisations increasingly outsource delivery of services to non-government organisations (NGOs), seeking more flexible and cost-effective approaches than traditional public service delivery. This can sometimes work well, but not always. Outsourcing to NGOs is not without risk and, managed poorly, can end up being less flexible and more costly than direct Government delivery in the long-run.

Outsourcing to NGOs has become the preferred model for delivering many publicly funded services. NGOs can seem to offer an attractive alternative to direct Government service delivery on three key dimensions – flexibility, value, and risk – however, the reality can fall short of all three expectations.

**Flexibility** – It may seem more flexible to contract others to provide a service than to maintain the resources and assets to deliver it directly. When the service is no longer needed, or it needs to change, for example due to a change in policy, you can simply stop purchasing the service, or purchase something different. If you are unsatisfied with one provider, you can easily contract another.

Like direct Government services, however, NGOs quickly build client bases that rely on their services and can be vocal in opposition to changes or closures. Threatened NGOs often attract more sympathy than public servants in the same situation and therefore blame directed at Governments withdrawing funding can be correspondingly greater. Considerable political capital can be required to achieve change.

Rather than offering more flexibility, outsourcing can lock Governments into providing long-term funding for quasi monopolies. Governments also have fewer levers to directly drive quality and efficiency, shifting the power balance over time from the buyer to the provider.



**Value** – NGOs can seem to offer better value than direct delivery by Governments, claiming to deliver similar services at lower prices. Often this is true, particularly in the early stages. For some NGOs, however, lower prices are a result of having less capacity, capability or organisational resilience. This can be particularly problematic for more specialised services. High-cost services may therefore be withdrawn, or prices creep up over time.

**Risk** – Decision makers about public services often have a positive bias (recognised or not) toward NGOs. They like the idea of working with community-based organisations staffed with dedicated local people. This bias can lead decision makers to underestimate risks when outsourcing to NGOs relative to direct Government delivery, or for-profit providers.

NGOs often direct a greater proportion of their funding and resources into front-line services, leaving less for critical back office and governance functions. Rigorous financial controls and highly structured policies and procedures add to the cost of direct Government and for-profit service provision, but they also reduce some risks such as fraud, key person dependency, and management errors. The greater vulnerability of some NGOs to organisational shocks can leave Governments with both reputational damage and the unplanned costs of a bail-out.

Outsourcing public services to NGOs can be a win-win-win for clients, NGOs, and Governments, by delivering greater flexibility and better value, but without proper consideration at the start, Governments run the risk of ending up worse off on all dimensions.