

Enhancing Health Systems through Public-Private Investment Partnerships: Lessons Learned from Lesotho

Conference Summary Report

Maseru, Lesotho

March 31-April 2, 2009



Ministry of Finance and
Development Planning



UCSF GLOBAL HEALTH SCIENCES
THE GLOBAL HEALTH GROUP
From evidence to action

Overview

On March 31-April 2, 2009, senior delegates from the Ministries of Finance and Health of Botswana, Malawi, Namibia, Swaziland, Zambia, and Zimbabwe gathered in Maseru to learn about the Kingdom of Lesotho's new approach to rebuilding the country's main referral hospital through a pioneering mechanism that will also strengthen Lesotho's overall health system.

In October 2008, Lesotho's Ministry of Finance and Development Planning (MOFDP) and Ministry of Health and Social Welfare (MOHSW) formally entered into a Public-Private Investment Partnership (PPIP) with a consortium of local and international healthcare providers to construct a new referral hospital and adjacent gateway clinic, and to renovate three strategically chosen urban filter clinics. In March 2009, construction on the new hospital began. The PPIP has three principle components:

- **Design** and **construct** a new 425-bed public hospital and adjacent gateway clinic
- **Renovate** three strategically chosen urban filter clinics
- **Manage** all clinical care and non-clinical services in these public facilities for 18 years

"Enhancing Health Systems through Public-Private Investment Partnerships: Lessons Learned from Lesotho" provided participants with detailed information on the PPIP and the process behind Lesotho's decision to undertake this innovative approach to revitalizing public healthcare financing and delivery throughout Lesotho. The conference's primary goal was to inform Ministries from neighboring countries of the benefits and challenges in initiating such large-scale partnerships and the steps taken to plan and execute the Lesotho project.

The 60+ attendees observed in-depth presentations from Lesotho's two Ministries, the International Finance Corporation (IFC), the Development Bank of Southern Africa, and the lead partner in the Lesotho partnership, Netcare, a South African healthcare company. (Please see Annex 1 for a list of conference participants.) An interactive panel-led discussion on the resources available and steps needed to undertake similar partnerships in other countries included representatives from the African Development Bank, DFID, The Healthcare Redesign Group, and the British High Commissioner to South Africa and Lesotho, H.E. Paul Boateng.

The conference was co-hosted by Lesotho's MOFDP, MOHSW, and the Global Health Group. (Please see Annex 3 for more information on the conference hosts.)

60+ participants gathered in Maseru to learn about Lesotho's new approach to rebuilding the country's main referral hospital through a pioneering mechanism that will also strengthen Lesotho's overall health system.

Lesotho's Public-Private Investment Partnership (PPIP) encompasses the design, construction, full maintenance, and full operation of all services at the country's primary referral hospital and a new gateway clinic, and the refurbishment and re-equipping of three filter clinics.

Conference co-hosts:

Ministry of Finance & Development Planning

Ministry of Health & Social Welfare

The Global Health Group

Lesotho's PPIP

PPIP Structure

The term "PPIP" describes a particularly novel type of public-private partnership that combines private investment in public health infrastructure with long-term contracts for both clinical and non-clinical service provision. Lesotho's PPIP encompasses the design, construction, full maintenance, and full operation of the country's primary referral hospital and a new gateway clinic, and the refurbishment and re-equipping of three filter clinics (Mabote, Qaoling, and Likotsi) for 18 years. This form of PPIP can be referred to as a Design, Build, Operate, and Deliver



The 100-year old Queen II Hospital is to be replaced by a new facility

(DBOD) model. Lesotho has partnered with a special purpose vehicle formed specifically for this PPIP: Tšepong (Pty) Ltd, more commonly called the "Tšepong consortium." Five groups of stakeholders make up Tšepong:

- Netcare Healthcare Group (40%) – South Africa's premier private provider of health services and hospital management.
- Afri'nnai Health (20%) – A health service company composed of doctors based in the South African city of Bloemfontein, two hours from Maseru, who have previous experience working with Netcare and serving Basotho patients in both South Africa and Lesotho. Afri'nnai Health will serve as a resource for clinical specialists serving the new hospital.
- Women Investment Company (10%) – This newly founded local company is composed of female Basotho entrepreneurs who will take the lead in a number of the project's non-clinical service components.
- Excel Health Services (10%) – This local company was founded specifically for the PPIP. It is composed of Basotho doctors who will serve at the new hospital and clinics.
- D10 Investments (10%) – This is the local investment arm of the Lesotho Chamber of Commerce.

The PPIP, including the Tšepong consortium, was carefully constructed to ensure progress and capacity building for the Basotho people. All of the key stakeholders involved with the PPIP, including the MOFDP, MOHSW, and Netcare, as well as the IFC which served as the Government's transaction advisor for the project, were committed to making the PPIP as integrated and far-reaching within the Lesotho context as possible. The PPIP's design has bolstered both community buy-in and political feasibility. As a result, the 18-year project will likely significantly impact Lesotho's economic development trajectory, in addition to making the country's health system more efficient and ultimately improving overall health outcomes.

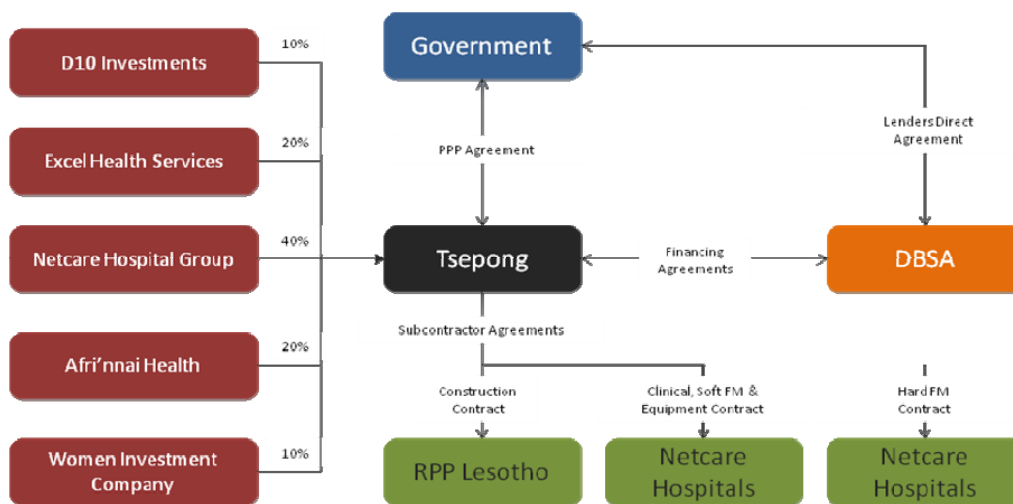


The new, state-of-the-art hospital will have 425 beds, 390 public and 35 private

Tšepong will equip the new facilities and provide all clinical, clinical support, and non-clinical services for the new hospital, the gateway clinic, and the three filter clinics. Tšepong has agreed to provide a comprehensive benefit package to 310,000 out-patients and 20,000 inpatients per year for a negotiated price. Tšepong will sub-contract with a local Basotho construction company and Netcare for the construction and facilities maintenance portions of the PPIP (see Figure 1).

Tšepong will employ all doctors, nurses, and other staff in the new hospital and clinics, and assure provision of all medical services for the duration of the contract. Public employees of the existing referral hospital will be offered the choice of shifting to private employment in the new facilities or taking a different government post at a site elsewhere in the country. The hospital will be erected on a new greenfield site outside of central Maseru, with a total of 425 beds; 390 public and 35 private. The old hospital will eventually be knocked down and the land used for other purposes by the Government of Lesotho.

Figure 1: Lesotho’s PPIP Configuration



Tšepong will also be required to utilize Lesotho’s existing national drug-supply system, rather than outsourcing logistics and procurement. Lesotho’s existing drug-supply system is, however, in need of improvement. Thus, Tšepong has agreed to strengthen the drug-supply system to better support both the new facilities and existing hospitals and clinics nationwide. Similarly, Tšepong has also entered into an agreement with the National Health Training College, and will utilize the new, state-of-the-art hospital for professional development and training for all levels of Lesotho’s health workforce.

The PPIP also incorporates explicit regulatory mechanisms ranging from mandatory evaluations to performance-linked payment systems. An independent certifier, PD Naidoo and Associates, appointed

jointly by the Government and Tšepong, will conduct regular reviews during the 24-month construction phase and will perform a final certification inspection to ensure that the construction and equipment comply with South African standards. Once built, the new hospital will be evaluated regularly by the Council for Health Service Accreditation of Southern Africa, and obtaining accreditation is mandatory for the PPIP contract to remain valid between the Lesotho Government and Tšepong. Additionally, the Government has appointed an independent monitor (Turner and Townsend) to oversee the clinical portion of the PPIP. The independent monitor will also administer the financial penalties resulting from any failure to meet the predefined performance standards.

PPIP Financing

The project capital costs, including the design, construction, and equipping of the new hospital, are estimated at US\$120 million. The Government's capital contribution will represent approximately 36% of the total costs, and the other 64% will be privately financed primarily through the Development Bank of Southern Africa, and the Tšepong consortium. Following construction, the Government's annual unitary payment for the new facilities is fixed to an amount equal to current hospital costs, adjusting annually for inflation. The new hospital contract not only results in more predictable expenditures for the national budget, but also ensures that overall expenditures are contractually bound not to exceed the current budget for the same services and facilities. This concept was labeled, "cost neutrality."

Currently, patients attending Lesotho's existing referral hospital pay a small user fee at the point of service. This user fee will remain the same for patients at the new hospital. Thus, the PPIP can be seen as achieving (cost neutrality)².

PPIP Characteristics

While Lesotho's PPIP is highly complex, several critical elements determine the partnership's structure. However, the PPIP's contracts have also been designed in such a way to ensure flexibility as the project progresses and lessons are learned. Key components of Lesotho's PPIP include:

- **Cost Neutrality** – Patient user fees remain unchanged and determined by Government policy, except for the private wing.
- **Performance-Based Payment** – The PPIP's underlying payment scheme is based on an extensive performance monitoring scheme, ensuring the Government can implement penalty deductions based on key performance indicators.
- **Workforce Capacity Building** – The new hospital will be used as a training resource for the entire health sector.
- **Mandatory Logistical Improvements** – Tšepong is contractually obliged to strengthen the existing national drug-supply system to better support both new and existing facilities nationwide.

- **Local Economic Empowerment** – A key success of the project has been the participation of local businesses in the bidding process – Tšepong is 40% owned by Basotho-owned businesses, increasing to 60% in year 12 of the project.
- **Staff Options** – Public employees in the current referral hospital will be offered the choice of shifting to private employment in the new facility or taking a different government post at a site elsewhere in the country.
- **Objective Monitoring and Oversight** – Tšepong is contractually obligated to provide high quality services for all patients and to ensure the appropriate modernity of all equipment within the new hospital, gateway clinic, and urban filter clinics. The Southern African hospital accreditation council will evaluate the hospital regularly, and an independent monitor will oversee contractual obligations and administer penalties arising from any failure to meet key performance indicators.

Conference Proceedings

The majority of conference attendees reported that, while having heard about Lesotho’s pioneering PPIP, they had no knowledge of the details or scope of the project. The series of presentations by the Lesotho MOFDP and MOHSW, and experts closely involved throughout the PPIP, offered a wide range of insights to participants, including incentives for private sector partners, the bidding, financing, and partnership development, and the pricing and quality-assurance practices included in Lesotho’s PPIP.

Presentations by representatives from the African Development Bank and the Development Bank of Southern Africa offered information on the availability and priorities for development agency financing. Presentations by international participants provided concrete examples of other applications of the PPIP model, combining joint financing and private service provision, both in other countries (the Turks and Caicos Islands and the Gambia) and in other areas of healthcare. (Please see Annex 2 for the conference agenda.)

Sir Richard Feachem of the Global Health Group at the University of California, San Francisco closed the meeting with a summary of proceedings and a call for more exploration, documentation, and courage to innovate through collaborations, such as the Lesotho PPIP, that integrate the skills and capacities of both public and private partners for the benefit of the entire population. Key lessons learned from the Lesotho PPIP experience include:

- **Transaction Advisors** – Intermediary actors are necessary for PPIPs given contract complexity and the wide range of stakeholders involved.
- **Capacity Building** – Many governments currently lack the skills required for contract management. Acquisition of these skills must be integrated into the PPIP process.

- **Intergovernmental Communication** – Ministries of Health and Finance should begin to dialogue on collaboration early in the PPIP process.
- **Patience and Tenacity** – PPIPs are not quick or cheap. Typically, it will take two years and several million dollars to get from first idea to project signing, and an additional two years for the doors of the new facilities to open. However, if (cost neutrality)² can be achieved, and if service access and quality are significantly improved, the wait and expense will be worthwhile and the change to the standards and expectations of the national health service can be transformational.
- **Careful Consideration** – There are a wide range of PPIPs that can work in different contexts. Countries must carefully determine which type is appropriate for a given situation.
- **Bold Innovation** – PPIPs represent a significant departure from the status quo, making implementation both politically and logistically challenging, and requiring new skills, new mindsets, and bold leadership.

Conclusion

Many countries in Sub-Saharan Africa are facing health systems crises that require significant, holistic changes to ensure badly needed improvements in health outcomes.

Many of these countries are beginning to consider leveraging the expertise of the private sector to achieve public policy goals. PPIPs are a viable way to address both health infrastructure and service delivery quality issues, while seeking to tackle other system-wide inefficiencies.

The application of the PPIP model will be different in every country, and may not be appropriate in some, but the Maseru conference left widespread agreement that this method of integrated private partnerships for financing and clinical service provision can solve many problems that face both Ministries of Health and Finance. Carefully constructed PPIPs, such as Lesotho's, can have far-reaching implications for an entire health system as well as a country or district's economic development trajectory.

Delegates communicated a strong consensus that PPIPs have the potential to be a crucial and sustainable component in addressing the health systems crises facing much of the region. The conference concluded with participants committing to initiate intergovernmental and cross-sector dialogues in their own countries on the applicability of PPIP models to their health systems. There was also broad agreement that knowledge generated in subsequent meetings and PPIP projects will be shared widely.

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Annex 1 – Conference Attendance List

Conference attendees included:

Botswana

Mr. Cedric Badabili	Analyst	Public Enterprises Evaluation and Privatisation Agency
Mr. Cornelius Dekop	Deputy Permanent Secretary	Ministry of Finance and Development Planning, Botswana
Mr. Gabolekwe Lesole Tlogelang	Coordinator, Health Hub, (Team Leader)	Ministry of Health
Mr. Moremi Moremi	Principal Economist	Ministry of Finance & Development Planning, Botswana
Dr. Ndwapi Ndwapi	Director, Clinical Services	Ministry of Health
Mr. Shadrack Rathapo	Manager, Information Resources	Public Enterprises Evaluation and Privatisation Agency

Lesotho

Hon. Dr. Timothy Thahane	Minister of Finance & Development Planning, Lesotho	Ministry of Finance and Development Planning
Dr. Campbell Katito	Operations Manager	Ministry of Health and Social Welfare
Mr. Mosito Khethisa	Principal Secretary	Ministry of Finance and Development Planning
Mrs. Masebota Khuele	Chief Economic Planner	Ministry of Health and Social Welfare
Mr. Lemesa Leaooa	AEP - PPP	Ministry of Health and Social Welfare
Mrs. Majoel Makhakhe	Director - Health Planning and Statistics	Ministry of Health and Social Welfare
Ms. T. G. Moeketsi		Ministry of Health and Social Welfare
Mrs. M. Mohapi	PPP Coordinator	Ministry of Health and Social Welfare
Dr. Karabo Mokobocho-Mohlakoana	Principal Secretary	Ministry of Health and Social Welfare
Ms. Mpati Mpatsoe	Minister's Secretary	Ministry of Finance and Development Planning
Ms. Moipone Ramollo	Minister's Office	Ministry of Finance and Development Planning

Malawi

Mr. Elijah Nyirenda	Health Planning Officer	Ministry of Health
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Namibia

Ms. Petrina Haingura	Hon. Deputy Minister	Ministry of Health and Social Service
Mr. Peter Ndaitwa	Under Secretary	Ministry of Health and Social Service
Mrs. Celine Uusiku	Director Policy Planning & Human Resource Development	Ministry of Finance

Swaziland

Dr. Makhosazana Dlamini	Senior Medical Officer	Ministry of Health and Social Welfare
Mrs. Sizakele Masuku	Director, Corporate Services and Supply Chain Management	Ministry of Finance

Swaziland (cont'd)

Dr. Nimrod Matekere	ICU Specialist / Consultant Anesthesiologist	Ministry of Health and Social Welfare
Mr. Sibusiso Sibandze	Health Economist	Ministry of Health and Social Welfare

Zambia

Dr. Situmbeko Musokotwane	Minister of Finance, Zambia	Ministry of Finance and National Planning
Hon. Mr. Kapembwa Simbao	Minister of Health, Zambia	Ministry of Health
Dr. Velepi Mtonga	Permanent Secretary	Ministry of Health
Mr. Amadeus Mukobe	Principal Economist & PPP Coordinator	Ministry of Health

Zimbabwe

Dr. Douglas Tendai Mombeshora	Deputy Minister	Ministry of Health and Child Welfare
Mr. Tonderai Kadzere	Strategy and Policy Development Officer	Ministry of Health and Child Welfare
Mrs. Makeletso M. Namasasu	Director	Ministry of Finance
Mr. T.D. Dhlwayo	Ministry of Economic Planning and Investment Promotion	Ministry of Economic Planning and Investment Promotion
Mr. Joel G. Gabbuza	Minister of State Enterprises and Parastatals	Ministry of State Enterprises and Parastatals
Mr. Thuwani Moyo	Attendent	Capital Africa

Additional Distinguished Participants

H.E. Paul Boateng	British High Commissioner to South Africa and Lesotho	British High Commission
Ms. Mari Bruwer	Managing Director, PPP Division	Netcare Limited
Ms. Lucy Chege	Unit Manager: Project Finance	DBSA
Mr. Colin Clark	DFID Country Representative, Lesotho	DFID
Ms. Carla Faustino Coelho	Investment Officer	IFC
Ms. Neelam Sekhri Feachem	CEO	The Healthcare Redesign Group
Sir Richard Feachem	Director	The Global Health Group
Dr. Richard Friedland	CEO	Netcare Limited
Mr. Divyash Keshav	Financial Manager	Netcare Limited
Ms. Heather Kinlaw	Program Manager, Health Systems Initiative	The Global Health Group
Dr. Victor Litlhakanyane	COO: Primary Care, Partnerships & Diagnostics	Netcare Limited
Ms. Zora Madikizela	Head, Healthcare and Education Strategic Business Unit	Industrial Development Corporation of South Africa (IDC)
Prof. Dominic Montagu	Lead, Health Systems Initiative	The Global Health Group
Mr. Lehlohonolo Mosotho	Director	Tšepong Consortium
Mr. Zenzo Ndabula	Manager: Public Private Partnership	Netcare Limited
Ms. Rachel Oppong	Country Manager	Clinton HIV/AIDS Initiative
Ms. Catherine Commander O'Farrell	Senior Investment Officer - Health and Education PPPs	IFC
Mr. Chris Papo	Nursing Manager	Netcare Limited
Dr. Wael Saleh	Senior Investment Analyst (Health), Private Sector Dept	African Development Bank
Mrs. Seitebatso Seeiso	Tšepong Consortium	Tšepong Consortium
Mr. Guy Stallworthy	Senior Program Officer	Gates Foundation
Mr. Robert Yates	Senior Health Advisor	DFID

Annex 2 – Conference Agenda

The program for the three-day conference included:



Ministry of Finance and
Development Planning



Enhancing Health Systems through Public-Private Investment Partnerships: Lessons Learned from Lesotho

Country participants include:

Botswana, Malawi, Namibia, South Africa, Swaziland, Zambia and Zimbabwe

**March 31 – April 2, 2009
Maseru, Lesotho**

Tuesday, March 31: Arrivals and Welcome Dinner

- 12:00 – 16:00 Arrivals and Check-In
- 19:00 – 21:00 **Welcome Dinner**
Ministers - Molepe Room, Maseru Sun
All other distinguished guests - Mohokare Restaurant, Maseru Sun

Wednesday, April 1: Overview of the Lesotho PPIP Experience

- 6:30 – 8:30 Breakfast
Mohokare Restaurant, Maseru Sun
- 8:30 – 9:00 **Registration**
- 9:00 – 9:05 **Welcome**
Hon. Minister Timothy Thahane, Ministry of Finance and Development Planning, Lesotho
- 9:05 – 9:30 **Keynote Address**
Sir Richard Feachem, Director, the Global Health Group, UCSF

Session 1: Lesotho's PPIP Experience: An Overview (Facilitator: Sir Richard Feachem)

- 9:30 – 10:00 **Ministry of Health and Social Welfare**
Dr. Karabo Mokobocho-Mohlakoana, MOHSW, Lesotho
- 10:00 – 10:30 **Transaction Advisory to Lesotho**
Ms. Catherine O'Farrell, International Finance Corporation
Ms. Carla Faustino Coelho, International Finance Corporation

10:30 – 11:00 Tea and Coffee

Session 2: Lesotho's PPIP Process: The Private Perspective (Facilitator: Mrs. M. Mohapi, MOHSW)

11:00 – 12:00 **Private Financing and Implementation: Netcare & The Tšepong Consortium**
Dr. Richard Friedland, Netcare
Dr. Victor Litlhakanyane, Netcare

12:00 – 12:30 **Open Discussion**

12:30 – 13:30 **Lunch**
Outside Area, Maseru Sun

Session 3: Lesotho's PPIP Process: The Finance Perspective (Facilitator: PS Khethisa, MOFDP)

13:30 – 14:30 **Ministry of Finance and Development Planning**
Hon. Minister Timothy Thahane, MOFDP, Lesotho

14:30 – 15:30 **Open Discussion**

15:30 – 16:00 Tea and Coffee

16:00 – 17:00 **Open Discussion**

18:00 – 19:00 **Reception**
Poolside, Maseru Sun

19:00 – 21:00 **Dinner**
Mohokare Restaurant, Maseru Sun

Day 2, Thursday, April 2: Other Country Experiences and the Way Forward

6:30 – 8:30 Breakfast
Mohokare Restaurant, Maseru Sun

Session 4: The Recent PPIP Experience from Other Countries (Facilitator: Dr. Wael Fayek Saleh, AfDB)

9:00 – 9:30 **A PPIP in the Turks & Caicos Islands, Caribbean**
Ms. Neelam Sekhri, The Healthcare Redesign Group

9:30 – 9:45 **Vehicle Leasing in The Gambia**
Mr. Guy Stallworthy, Bill & Melinda Gates Foundation

9:45 – 10:15 Q&A

10:15 – 10:45 Tea and Coffee

Session 5: Lessons and the Way Forward (Facilitator: British High Commissioner Paul Boateng, South Africa)

10:45 – 11:30 PPIPs: A Panel Discussion
Dr. Wael Fayek Saleh, African Development Bank
Mr. Robert Yates, DFID
Ms. Catherine O'Farrell, International Finance Corporation
Ms. Lucy Chege, DBSA

11:30 – 12:00 **Observations by Participants**

12:00 – 12:15 **Summation**
Sir Richard Feachem

12:15 – 12:30 **Closing Remarks**
Hon. Minister Timothy Thahane

12:30 **Press Conference**

12:45 Lunch
Mohokare Restaurant, Maseru Sun

14:00 **Departure and Check-Out**

14:00 – 17:00 *Optional Excursion to Thaba-Bosiu*

The Lesotho Ministry of Finance & Development Planning

Led by the Honorable Minister Dr. Timothy Thahane, the Lesotho Ministry of Finance and Development Planning serves to manage, supervise and control fiscal and financial affairs of the Lesotho Government including custody, maintenance, and care of government assets. The ministry meets all stakeholders' needs by providing timely and accurate financial information, guidance and advice in financial and fiscal policy, efficient delivery of services.

The Lesotho Ministry of Health & Social Welfare

Led by the Honorable Minister Dr. Mphu Ramatlapeng, the Lesotho Ministry of Health and Social Welfare's mission is to provide good quality and affordable services to every Mosotho. The vision of the Ministry is based on three key principles, all of which are reflected in the country's new PPIP: universal coverage, social justice, and equity.

The Global Health Group

The Global Health Group (GHG) at the University of California San Francisco, Global Health Sciences, is an "action tank," dedicated to translating major new paradigms and approaches into large-scale action to impact positively the lives of millions of people. Led by Sir Richard Feachem, formerly the founding Executive Director of the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GHG works across the spectrum from analysis, through policy formulation and consensus building, to comprehensive implementation of programs in collaborating low- and middle-income countries. As part of its Health Systems Initiative, the GHG seeks to identify and evaluate innovative service delivery platforms, assisting ministries of health and other partners to connect with complementary institutions to ensure the public sector has the resources it needs to create innovative PPPs. Following its April 2008 conference at Wilton Park, "Public-Private Investment Partnerships in Health Systems Strengthening," the GHG has prioritized supporting ministries in countries throughout Sub-Saharan Africa to explore potential PPIPs.

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