Public-Private Partnerships in Health

Creating opportunity where it’s needed most
“Health is as critical as institutions, infrastructure and education for economic competitiveness and growth. It is a prerequisite for human energy, entrepreneurship, dynamic markets and a productive society.”

Haskell Ward, Chairman of the Global Health Strategic and Advisory Committee of the American Cancer Society
The health challenge
Challenges

Rise in non-communicable diseases
such as cardiovascular disease, cancer, respiratory illnesses, and diabetes, make up the largest contribution to mortality in most low-income countries and globally.

Paradigm shift
Chronic conditions require a different skill and workforce mix, centered around primary care. This means fewer hospital specialists, but more nurses and other health professionals.

Increasing costs and expectations
Ageing populations, more advanced and costly technology, and increasing expectations from patients.
Constraints

Lack of infrastructure
Many low-income countries lack the facilities necessary to provide basic health care services and products.

Shortage of trained staff
Many low-income countries have a shortage of adequately trained staff to meet the needs of the population.

Limited resources
Resources from all sources are limited which means that governments increasingly need to do more with the same amount of resources.
How PPPs help
What is a PPP?

“A partnership between the public and private sector to deliver a public service with full or partial transfer of risks to the private sector”
What is a PPP?

*a contractual arrangement between a public body and a private sector entity, where the skills and assets of the private sector are mobilised by the public sector to deliver services and/or assets to the general public.*
Key advantages of PPPs

1. Combine the different skills and resources of various partners in innovative ways.

2. Allow for the sharing of risks and responsibilities
   a. Public partner concentrates on fixing the objectives to be attained
   b. Risks are allocated to the party which is best able to manage them

3. Provide access to industry best practices, as well as the experience and expertise of the private sector.

4. Allow governments to focus on policy, planning and regulation.

5. Bring value for money as a result of the competitive bidding process.

6. Ensure high quality service standards and ongoing training programs.
The evolution of the PPP model

**Infrastructure**

Construction and facilities management
In hospitals, primary care or community care facilities
Asset-heavy

**Services**

Clinical and non-clinical services
At primary, secondary or tertiary level
Asset-light
Could include medical training/health insurance or vouchers

**Integrated**

Construction and facilities management and full range of clinical and non-clinical services
At primary, secondary or tertiary level
How do PPPs differ from traditional public procurement?

1. PPPs are long-term contracts for governments to buy a bundled service (facility, staff, supplies, equipment)

2. PPPs involve payments over long-term after facility commissioning

3. Payment is tied to performance or outputs NOT inputs/milestones

4. Private party is typically responsible for all or part of the capital financing
Ingredients for a Successful PPP

- Strong political will
- Legislative and regulatory environment
- Fiscal Space
- Public sector capacity
- Private sector capacity
- Fit with wider health strategy
- Appropriate risk sharing
- Focus on services delivery, not facilities

Be aware of opportunities
Recipe for failure?

- Limited monitoring capacity
- Changing environment impacts key parameters
- Long term fiscal affordability in question
- PPP isolated from wider health system

Be aware of challenges
Public Private Partnerships in Health
Possible Solution to Challenges in Finance and Delivery of Public Health

- Health care spending is the biggest component of GDP globally – 9% and rising
- Governments are facing not only increasing demand for health care services, but also rising costs (medical technology, changing disease patterns)
- Governments are looking for new models to respond to these challenges

PPPs can mobilize private finance, increase access, introduce efficiencies in the delivery of public health services, and improve health outcomes
Advantages of PPPs in Health

1. Improve Services

- New/refurbished infrastructure
- Higher quality service standards
- Access to scarce clinical skills
- Regular maintenance and technology upgrades
- Ongoing training programs
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   - Improve budgetary efficiency.
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2. Mobilize capital
   - Better identification & allocation of long-term risks.
   - Maintain affordable tariffs.
   - Improve building efficiency.
   - Ensure predictable budget commitments.
   - Provide access to industry best practices & private-sector expertise.

3. Increase efficiency
Lessons learnt from health PPPs

- Use PPPs to expand service / improve quality
  - Not as means to simply finance new buildings/equipment
- Define services needed (not facilities)
  - Give operators flexibility on how to provide
  - “Full” PPPs deliver more benefits
- Maximize private sector responsibility
  - Monitoring is essential, but often overlooked
- Contract management capacity
  - Long-term fiscal affordability is essential
  - Promote competition and efficiency
  - Provider payment reforms
  - Accreditation
  - Developing hospital management capacity
- PPPs as part of a broader health sector reform
PPP Design & Execution
Approach to Public Private Partnerships in Health

Providing Public Healthcare through Private Delivery

• PPPs do not necessarily require an introduction of user fees or an increase of existing user fees

• The services delivered by the private sector under a PPP are still public services; the government’s role is now the strategic purchaser from private providers

• All patients receive equal treatment (no two-tiered service)

• Service quality is well-regulated to ensure patient care/safety and contract compliance

• Payment to operator is tied to performance
### Health PPP - Different solutions for different needs

<table>
<thead>
<tr>
<th>Non-clinical Services</th>
<th>Clinical Services</th>
<th>Management Contracts</th>
<th>Infrastructure PPP (PFI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracting out works and services such as IT equipment and service, cleaning, catering, maintenance, etc.</td>
<td>Contracting out services such as dialysis, radiotherapy, day surgery etc.</td>
<td>Management of hospitals or networks of hospitals and/or clinics</td>
<td>Contracting a private provider to design, build and manage facilities</td>
</tr>
<tr>
<td><strong>Country examples:</strong> global</td>
<td><strong>Country examples:</strong> Romania, Peru, UK</td>
<td><strong>Country examples:</strong> Brazil</td>
<td><strong>Country examples:</strong> UK, Spain, Italy, Mexico, South Africa, France, Australia</td>
</tr>
</tbody>
</table>

### Infrastructure and Services PPP

- Contracting a private provider to design, build, and manage facilities as well as deliver clinical services
- **Country examples:** Portugal, Lesotho, Spain, Turks and Caicos
## Types of health PPPs

<table>
<thead>
<tr>
<th>Hospitals &amp; health networks</th>
<th>Primary care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed designs, building construction or refurbishment, medical equipment.</td>
<td>Primary care, public health, vaccinations, maternal &amp; child care.</td>
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<th>Non-clinical services</th>
<th>Clinical support services</th>
</tr>
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<tr>
<td>IT equipment &amp; services, maintenance, food, laundry, cleaning, buildings &amp; equipment, management.</td>
<td>Lab analysis, diagnostic tests, medical equipment maintenance, and other support services</td>
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<tr>
<th>Operations management</th>
<th>Specialized clinical services</th>
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<td>Management of entire facility or network of hospitals and/or clinics.</td>
<td>Dialysis, radiotherapy, day surgery, other specialist services.</td>
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Roles of the Private Provider and the Public Sector

Typical PPP Transaction

Private Consortium
- Detailed designs
- Capital financing
- Construction
- Medical supplies & equipment
- Maintenance
- Non-clinical services
- Staffing
- Clinical services

Ministry of Health or National Health Insurer
- Legal permits and authorization
- Reimbursement for services
- Performance monitoring
- Define service package and standards
- Outline needs and strategy for sector
Health PPP Contract Structure

- **Public Entity**
  - Direct Agreement (?)
  - Project/Concession Agreement

- **PPP Project Company**
  - Loan Agreement
  - Construction Subcontract
  - Services Subcontract
  - Mgmt/Services Subcontract

- **Lender**

- **Holding Company**
  - Share Capital/Sub Debt

- **Construction Contractor**
- **Services (FM) Contractor**
- **Healthcare Provider**
PPP Engagement Overview

Public

Private

Advisor

RISK
REGULATION
STRATEGY
AFFORDABILITY

MANAGEMENT
EXPERTISE
EFFICIENCY
FINANCING

STRUCTURE/FEASIBILITY
INVESTOR MARKETING
TRANSACTION CLOSING
PPPs: Network of Activities

- Contract Design
- Tender Process
- Project Financing

- Service Obligations/Standards
- Sustainable Risk Allocation
- Monitoring
- Dispute Resolution

- Investor Fair Treatment
- Global Marketing
- Transparent Tender Evaluation Criteria

- Service Affordability
- Balanced Payment Structure
- Potential IFC Financing
Typical PPP Project activities and phasing

**Phase 1: Analysis**
- Assess PPP options
- Define transaction structure
- Market to investors
- Prepare PPP contract
- Conduct tender
- Closing

**Phase 2: Implementation**
- Risk allocation
- Investment program
- Info memo
- Road show
- Pre-qualification
- Data room
- Service standards
- Performance targets
- Payment procedures
- Penalties
- Monitoring
- Technical evaluation
- Financial evaluation
- Winner selection
- Contract effectiveness & assumption of service obligations
Global Examples of Health PPPs
IFC health PPPs worldwide
IFC Transaction Example: Jharkhand Statewide Diagnostic Services

Project

• A PPP Program for the construction, equipping, financing, and management (all clinical and non-clinical services) of
  – Pathology Centers
  – Diagnostic Imaging (Radiology) Centers
  – Scope: all Government District Hospitals and stat-run Medical Colleges across all 24 districts of Jharkhand covering a population of 30 million

• Pathology Project Awarded to SRL and Medall: Already being implemented
  PPPs to improve diagnostic services at four state medical college hos

• Radiology Project in the process of being awarded

• Being replicated by IFC in other states and countries

<table>
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<th>Expected Development Impact</th>
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<tr>
<td>No. of people with expected to be benefitted per year</td>
</tr>
<tr>
<td>No of Labs to be set up</td>
</tr>
<tr>
<td>Minimum number of CT Scans (16 slice or more)</td>
</tr>
<tr>
<td>Minimum number of MRIs (1.5 tesla or more)</td>
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</table>
Payer Side: Meghalaya Universal Health Insurance II, India

Project
• Launched in 2015, being successfully implemented
• Provides “almost” universal Health Insurance to all residents of Meghalaya
  – All people eligible to enroll
  – Covers high impact primary, preventive, diagnostics, secondary, tertiary and follow-up services
  – Statewide and countrywide network of hospitals
• Project will promote the use of standard healthcare facilities and qualified medical personnel in the state and promote the development of the private health delivery sector in the state
• Provides a replicable model for expansion of health insurance coverage in other Indian states
• Involved a scientific pricing of over 1,600 packages per the quality of hospital
• Enhances investment climate for the private sector in the state

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<tr>
<td>Population Eligible for Insurance Cover</td>
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<tr>
<td>Annual Insurance Cover per Family of five</td>
</tr>
<tr>
<td>Diseases Covered</td>
</tr>
<tr>
<td>No of packages</td>
</tr>
<tr>
<td>Cost per Family</td>
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</table>
Project
• PPPs under preparation for Alexandria University for a new maternity hospital, blood bank and teaching hospital with centers of excellence for neurosurgery and nephrology/urology

Structure
• Long-term PPP contracts for the design, financing, construction and equipping, and facility management of the new hospitals
• The public sector will retain responsibility for the clinical services and hospital management

Timeline
• Demand assessment, sizing of the hospitals, estimation of capital and operating costs completed
• 8 major consortia have prequalified and the tender is expected in the second half of 2010
IFC Transaction Example: Hospital PPP

Mexico State Hospitals

Project
- Client is the state health insurer (ISSEMyM) of State of Mexico
- PPPs for two new secondary hospitals (120 beds each)
- IFC has completed demand assessment, site selection, hospital sizing, financial and Value for Money analyses
- Projects currently at the State Legislature for approval

Structure
- Operator will be responsible for constructing, financing, equipping, facility management, and clinical support services (radiology, labs, dialysis)
- The public sector will be responsible for most clinical services

Timeline
- Tender is expected in late 2010
IFC Transaction Example: Hospital PPP

Bahia Hospital

Project
- Client is the Government of Bahia
- PPP to manage and equip a 298-bed facility which includes a surgical center, clinic, medical laboratories, physical therapy unit, and pharmacy
- IFC has completed technical studies and feasibility analysis, structured the transaction, drafted legal documents, and implemented the bidding process
- Project is Brazil’s largest health investment in 20 years

Structure
- Operator will be responsible for equipping, maintaining, and operating both clinical and non-clinical services at the hospital

Timeline
- Transaction closed in May 2010, and the hospital construction is expected to be completed in mid-2010
**Project Example: Hospital PFIs**

**United Kingdom**

**Projects**

- Since beginning in 1994, 90 health PFI projects have been completed with a total investment of over €10bn

**Structure**

- Private sector entity responsible for construction, financing and facility management
- Public sector retains clinical services and respective personnel
- Private entity is shielded from market, demand and political risks
Project Example: Diagnostic Treatment Centres

United Kingdom

Projects

- The expansion by the NHS of the DTC (Diagnostic Treatment Centres) to the private sector was undertaken to decrease waiting times, offer patients greater choice, allow capital investment

Structure

- NHS tendered for specified outpatient (volume) contracts with initial contracts for 5 years
- NHS patients will be treated free, paid by the NHS
- Operators will be paid on the basis of clinical activity completed (volume)
- Pricing will be on the basis of the national tariffs of specific diagnostics/treatment services
- Operator is responsible for all capital and operational costs for providing the services, and assumes financial risk for all profits or losses

Results*

- 80 DTCs operational
- Play an important role in speeding up access to surgery and other elective care for NHS patients, and in expanding choice of providers

* Department of Health, Treatment Centres: Delivering Faster, Quality Care and Choice for NHS Patients, January 2005
Project Example: Integrated Delivery PPP

Alzira Health Area, Spain

Project

• Includes 300-bed La Ribera Hospital, four integrated healthcare centers, and 46 public primary care health centers, covering 250,000 inhabitants of the Alzira Health Area

Structure

• 15-year concession contract with a 5-year option for extension and an increased capitation payment for management of the facilities, as well as the delivery clinical services

• VHD pays the consortium an annual capitation fee of €535 for residents of the area and a DRG fee for patients from outside the catchment area

Results

• La Ribera has increased efficiencies: lower ALOS (4.6) and higher surgeries per theatre per day (6.6) as compared to other similar hospitals, and patient satisfaction is high (91% reporting positive)

• Tenders are planned for constructing 8 new hospitals over the next 4 years in the Valencia region, all following the Alzira II model
Thank you

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