Public Private Partnerships (PPP) can be acommpanied by difficulties, particularly in the context of developing countries. Given that PPP can be an instrument for financing infrastructure development in the Southern African Development Community (SADC) region, these systemic weaknesses need to be addressed at both national and regional level. To assist in this regard, the SADC Secretariat and the SADC Development Finance Resource Centre (DFRC), in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has commissioned a series of case studies examining private sector experiences of Public Private Partnerships (PPP).

On behalf of Federal Republic of Germany The Federal Government

A CASE STUDY ON LESOTHO NEW REFERRAL HOSPITAL

NOVEMBER 2012

FIRM OVERVIEW

Title	Lesotho New Referral Hospital
Name of private sector partner	Netcare & Tsepong
Nationality	Lesotho
Sector	Health care
Countries where doing business	South Africa and Lesotho
PPP Type	Build-Operate-Transfer
Partners	Tsepong Consortium with 67% • Netcare SA Healthcare Group • Excel Health Lesotho based doctors • Afri'nnai Bloemfontein based doctors • Women Investment company Basotho women group • D10 Investments Lesotho Chamber of Commerce investment arm The Lesotho Government (partnering with the Development Bank of South Africa, the International Finance Corporation and the World Bank) with 33%

BACKGROUND

In 2009, an 18-year PPP agreement was brokered in Lesotho between the Lesotho government, and Tsepong (a consortium of Netcare, a South African hospital group, and local private sector partners in Lesotho) to establish a healthcare service consisting of a hospital and several referring clinics.

The infrastructure provided by the deal is a 425-bed referral hospital (390 bed public, 35 private) and 3 satellite clinics. These filter clinics began operations in May 2010, and the hospital in late 2011.

The cost of the project was approximately US$100 million, with the financing coming from the Development Bank of Southern Africa, a government contribution, and private equity. In addition to this funding support, the PPP received technical assistance funds from the governments of the Netherlands and Sweden and the Global Partnership for Output Based Aid.

The business arrangement involves a series of unitary payments spread over the life of the PPP contract, in return for the infrastructure and managing, and operating the hospital and referring clinics.

BARRIERS ENCOUNTERED BY PRIVATE SECTOR PARTNERS

There was at the outset very little capacity in the Government of Lesotho to understand, plan and manage PPPs. There was limited understanding of the PPP model, of the different options for structuring the deals, how long it would take the private partner to recoup the investment, and the extent of the services that the private sector should provide. Also there was no clear understanding that the very nature of a PPP is long-term, with all associated benefits and risks.

Another barrier is that at the time of the deal, there was no national PPP policy adopted and promulgated in Lesotho.

There was skepticism about the motive of private sector operators in healthcare. There was tension around the motives of profit and the more altruistic motives of health care provision. This was particularly true because in Lesotho there are few private health care facilities, and the involvement of private operators in the public domain was a new and quite disturbing concept.

One barrier also encountered is that in the healthcare sector outside of South Africa, PPPs are relatively untested, and there not sufficient data to "prove" the model.

The AIDS pandemic in Southern Africa also meant that the financial modeling was complex.

Wealthier people in Lesotho have traditionally gone to South Africa for treatment, and there were negative perceptions about a private care facility (35-bed) within a bigger public sector operation.

IMPACT OF BARRIERS

- The lead time in implementing the PPP was protracted.
- Both parties had to do pioneering work in establishing policy parameters for the PPP.
- Public and international negative perceptions of the PPP deal, and the role of the IFC as consultants.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

The private partner attempted to use every means possible to facilitate capacity building about PPPs among all of the players associated with the deal. The International Finance Corporation was bought on board to act as impartial transaction advisors, and they did much to build understanding of the potential of the deal. The Ministry also did a great deal of self- capacitation as it was the first major PPP in Lesotho.

The company undertook an intensive long term cost and risk analysis, and this formed the basis for their negotiation of the unitary payment schedule. The unitary payment system raised questions about whether the PPP was a sufficiently profitable investment for the private partners. This resulted in the establishment of a 35-bed "top-end" private hospital facility built from scratch by the private partner with a subsidy from the state and from which all profits are to be retained exclusively.

The unitary payment system was also linked to a specific number of outpatient visits and referrals and the risk of how visits over and above this number would be paid for, was part of the risk mitigation strategy.

In order to counter any negative perceptions, the private partner has undertaken to ensure that a good flow of information relating to the positive achievements of the PPP was made regularly available to the public. In fact a lot of positive information has also been made available by the Ministry which is justifiably proud of the landmark deal.

The private 35-bed facility has also been actively marketed nationally.

The Government of Lesotho keeps a firm interest in the Lesotho New Referral Hospital PPP, and indeed, through the Departments of Health and Finance, were enthusiastic drivers of the PPP in the first place.

OUTCOME FROM REACTION TO BARRIER

The facility is for the moment functioning smoothly, and the barriers identified, and the measures put in place to manage them have so far been successful. This is particularly true for the risk aspects of profitability and the capacity to pay for additional outpatients and referrals.