

Public Private Partnerships (PPPs)

Abdi Momin Ahmed, Regional Advisor Health Policy & Planning

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Public-Private Partnerships

PPPs generally involve:

- Government contracting with the private sector for a specific service and/or capital asset
- Some level of government funding – either to the private operator or to consumers receiving the service

Key issues for the Government in PPPs

- Scope of private sector responsibility
- Tender procedures and selection criteria
- Risk allocation between Government and private operator
- Funding for services provided
 - Linking reimbursement to performance and outputs
- Funding for non-clinical activities (e.g. medical teaching)
- Contract compliance and regulation
- Penalties and termination
- Dispute resolution and arbitration

Contracting Options for Purchasing Health Services



| | |
|------------------------------|---|
| Contracting out | Purchase services from an outside source to a govt. entity using primarily external workforce |
| Contracting in | Purchase services from an outside source for managing an internal service or workforce |
| Procurement | Purchase supplies and materials from one or more outside source |
| Lease or rental arrangements | Securing the use, but not ownership, of facilities or equipment from outside source (capital intensive items) |
| Subsidy or subvention | Direct or indirect financial support intended to alter the provision or production of a selected service |
| Franchise | Franchisee is granted the right to provide services to a defined clientele or geographic region, a proportion of the revenue goes to the government |

Public and Private Health Sector: Comparative Advantages & Disadvantages

| | Public Sector | Private Sector |
|---------------------------------------|---|---|
| Equity and access | <ul style="list-style-type: none">•Targets poor• Attentive to geographical disparities | <ul style="list-style-type: none">•Favors individuals who can pay•Urban concentration |
| Public health preventive and curative | <ul style="list-style-type: none">•Public goods with large externalities•Extensive network of facilities | <ul style="list-style-type: none">•Little attention to preventive services without incentives•Emphasis on private goods |
| Customer orientation | <ul style="list-style-type: none">•Heterogeneous customers•Less responsive•Indirect accountability to customers | <ul style="list-style-type: none">•Narrow range of customer needs•More responsive•Direct accountability•May exclude poor & sickest |

Public and Private Health Sector: Comparative advantages & disadvantages

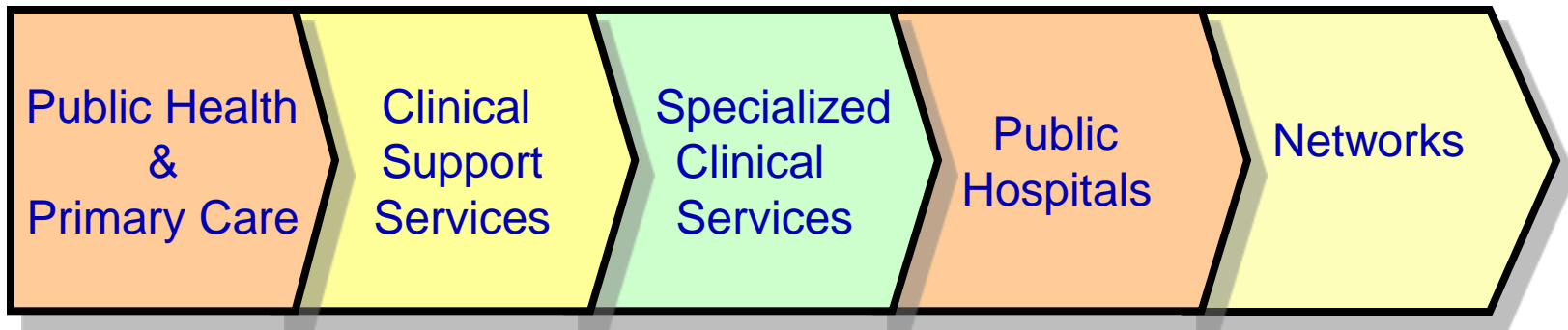
| | Public Sector | Private Sector |
|------------|---|--|
| Management | <ul style="list-style-type: none">•Depends on political and legislated direction•Hierarchical bureaucracy, diffuse accountability•Compromised by vested personal interest•Restrictive range of authority, less flexibility | <ul style="list-style-type: none">•Relies more on informed decisions•Smaller more focused authority structures•Greater synergy between business and personal interests•Greater flexibility, more innovation |

Public and Private Health Sector: Comparative advantages & disadvantages

| | Public Sector | Private Sector |
|-------------|--|--|
| Financing | <ul style="list-style-type: none">• Access to tax revenues• Weak incentive to be cost efficient• Incremental budgets• Limited access to private capital | <ul style="list-style-type: none">• Revenue flow from sales or contracts• Attentive to cost and price• Resources assigned to profit centers• Access to capital markets |
| Competition | <ul style="list-style-type: none">• Possible monopoly on selected services reinforced by regulation and subsidization | <ul style="list-style-type: none">• Subject to competitive pressure from public and private providers• While entering market, interest in increasing contestability• When established, interest in decreasing contestability |

Common type of services for PPPs

PPPs can be applied to a wide range of health care services



- Vaccinations
- Family planning
- General Practitioners

- Labs
- Imaging
- Ambulance
- Other support services

- Dialysis
- Ambulatory surgery
- Cancer treatment

- Management of existing hospital
- Construction and/or mgt of new hospital
- Private wing

- Network of hospitals and/or clinics

PPPs for Clinical Services

- PPPs can be used for many different types of clinical services and clinical support services, such as:
 - Laboratory analysis
 - Outpatient dialysis
 - Diagnostic imaging and radiology
 - Ambulatory surgery

PPPs for Hospitals

- Public-private partnerships can be beneficially used for:
 - the funding, construction, equipping and/or operation of new hospitals
 - the upgrading, maintenance and operation of existing hospitals
- There is a wide range of options for structuring PPPs for new hospitals, with differing responsibilities for the public and private sectors pertaining to:
 - Capital financing (building and equipment)
 - Construction and procurement
 - Ownership
 - Provision of services

International examples of PPPs for hospitals

Central Europe: Hemodialysis

- Government National Health Insurer tendered for private operators to take over, re-equip and operate hemodialysis clinics in 8 hospitals under 4-year contract (extended to 7 years if operator builds new facility within 2 years)
- Operator paid fee per hemodialysis treatment
- Operator assumes full risk and responsibility for:
 - Purchasing all medical supplies and equipment
 - Capital costs related to facility and equipment
 - Staff hiring and pay
 - Providing complete hemodialysis service
- Contracts included strict performance **standards for facility and patient treatment**

Brazil (Sao Paulo State)

- State Government financed, built and equipped 25 new hospitals under traditional public works contracts
- State contracted with 'not-for-profit' hospital operators to manage the hospital (including all clinical and non-clinical services)
- Providers obliged to treat all local residents
- Provider receives global fixed budget (monthly disbursements) from State, provided specified patient volume and quality parameters are achieved (contract includes 10 performance targets)
- Provider assumes all operating risk (demand and financial)



United Kingdom (Darent Valley)

- The UK government has used its PFI program to construct many new public hospitals
- Darent Valley (400 beds) was the first PFI, built to replace three old hospitals (totaling 450 beds)
- Government tendered for a private operator to:
 - design, construct and capital finance the new hospital
 - maintain and provide non-clinical services
- Long-term contract with facility and services payments linked to performance
- All clinical services and management remain under the public sector
- Contract with operator totals 177 million
- Completed and commissioned in July 2002



Canada (Abbotsford)

- Abbotsford Regional Hospital and Cancer Center is a 300-bed replacement hospital and oncology center (60,000 m²) was opened in mid-2008
- Serve area of 350,000 population
- Under the PPP, the private operator has
 - Financed capital costs



Design, build and maintain the hospital

- All clinical services will be provided by the government health authority and BC Cancer Agency
- The land and facility will be owned by the public health authorities
- Project named by Project Finance as top PPP deal in North America for 2004

Sweden: St. Goran's

- In 1999, the Municipality of Stockholm privatized a 240-bed emergency public hospital (St. Goran's) to a private provider (Capio) following a series of reforms aimed at improving quality and reducing costs
- The Municipality transferred cost risk to Capio by specifying prices and volumes of services in the contract
- Since reforms were launched, St. Goran's has cut unit costs by 30% and is able to treat 100,000 more patients annually with the same budget

In Egypt

- **Boulaq General Hospital Project Details:**
- The Ministry of Health and Population (MoHP) has submitted a request to the Ministry of Finance to prepare and implement a Public-Private Partnership (PPP), using the UK PFI model for the design, financing, construction, maintenance, equipping, furnishing and provision of non-clinical services.
- **•Location: Cairo Governorate•Capacity : 150 Beds•Project duration : 20 Years *Overview***

Instruments for regulating the private health sector

- Self regulation
 - Code of ethics
 - Accreditation
- Control based
 - Legislation [e.g. licensing, on organ transplantation]
 - Administrative decree [e.g. standard setting]
 - Judicial order [e.g. medical malpractice]
- Incentive based
[policy created payoffs or penalties]
 - Financial
 - Access to capital
 - Low interest loans
 - Tax exemptions/subsidies
 - Contracting and provider payment
 - Non-financial
 - Training
 - Credentialing
 - Social marketing

How to enforce these?

Carrot vs. the Stick Approach

Conclusion

- Governments are confronted by fiscal constraints
- Many public health systems are already indebted
- The need to provide care to increasingly ageing population
- The need to improve quality and invest in often expensive medical treatment
- Turning to the private sector may help address specific cost and investment challenges, increase efficiency and enhance service quality. However, the PPPs face in health care may not be easy.
- It takes a long time to establish and bring fruition and in many case may not be the most effective option available
- Careful evaluation therefore of the condition for success and sustainability is required on a case-by case basis

Thank you