Public Private Partnerships (PPPs)

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International Congress on Reformation and Development of the Health care System in Iraq Kurdistan Region:

Erbil 2-5 February, 2011, Iraq
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

<table>
<thead>
<tr>
<th>Option</th>
<th>Description</th>
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<tbody>
<tr>
<td>Contracting out</td>
<td>Purchase services from an outside source to a govt. entity using primarily external workforce</td>
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<tr>
<td>Contracting in</td>
<td>Purchase services from an outside source for managing an internal service or workforce</td>
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<tr>
<td>Procurement</td>
<td>Purchase supplies and materials from one or more outside source</td>
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<td>Lease or rental arrangements</td>
<td>Securing the use, but not ownership, of facilities or equipment from outside source (capital intensive items)</td>
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<td>Subsidy or subvention</td>
<td>Direct or indirect financial support intended to alter the provision or production of a selected service</td>
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<td>Franchise</td>
<td>Franchisee is granted the right to provide services to a defined clientele or geographic region, a proportion of the revenue goes to the government</td>
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Adapted from: Lagenbrunner (2000)
## Public and Private Health Sector: Comparative Advantages & Disadvantages

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
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</thead>
<tbody>
<tr>
<td><strong>Equity and access</strong></td>
<td>• Targets poor</td>
<td>• Favors individuals who can pay</td>
</tr>
<tr>
<td></td>
<td>• Attentive to geographical disparities</td>
<td>• Urban concentration</td>
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<tr>
<td><strong>Public health preventive and curative</strong></td>
<td>• Public goods with large externalities</td>
<td>• Little attention to preventive services without incentives</td>
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<tr>
<td></td>
<td>• Extensive network of facilities</td>
<td>• Emphasis on private goods</td>
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<tr>
<td><strong>Customer orientation</strong></td>
<td>• Heterogeneous customers</td>
<td>• Narrow range of customer needs</td>
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<tr>
<td></td>
<td>• Less responsive</td>
<td>• More responsive</td>
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<tr>
<td></td>
<td>• Indirect accountability to customers</td>
<td>• Direct accountability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• May exclude poor &amp; sickest</td>
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## Public and Private Health Sector: Comparative advantages & disadvantages

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<tr>
<th>Management</th>
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<th>Private Sector</th>
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<tr>
<td></td>
<td>Depends on political and legislated direction</td>
<td>Relies more on informed decisions</td>
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<td></td>
<td>Hierarchical bureaucracy, diffuse accountability</td>
<td>Smaller more focused authority structures</td>
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<td></td>
<td>Compromised by vested personal interest</td>
<td>Greater synergy between business and personal interests</td>
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<tr>
<td></td>
<td>Restrictive range of authority, less flexibility</td>
<td>Greater flexibility, more innovation</td>
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</tbody>
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Adapted from Harding and Preker 2006
## Public and Private Health Sector: Comparative advantages & disadvantages

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<td><strong>Financing</strong></td>
<td>• Access to tax revenues</td>
<td>• Revenue flow from sales or contracts</td>
</tr>
<tr>
<td></td>
<td>• Weak incentive to be cost efficient</td>
<td>• Attentive to cost and price</td>
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<tr>
<td></td>
<td>• Incremental budgets</td>
<td>• Resources assigned to profit centers</td>
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<tr>
<td></td>
<td>• Limited access to private capital</td>
<td>• Access to capital markets</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>• Possible monopoly on selected services reinforced by regulation and subsidization</td>
<td>• Subject to competitive pressure from public and private providers</td>
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<tr>
<td></td>
<td></td>
<td>• While entering market, interest in increasing contestability</td>
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<tr>
<td></td>
<td></td>
<td>• When established, interest in decreasing contestability</td>
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Common type of services for PPPs

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

Public Health & Primary Care
- Vaccinations
- Family planning
- General Practitioners

Clinical Support Services
- Labs
- Imaging
- Ambulance
- Other support services

Specialized Clinical Services
- Dialysis
- Ambulatory surgery
- Cancer treatment

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

Networks
- 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
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

- **Boulak 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]

How to enforce these?

- Incentive based
  - Financial
    - Access to capital
    - Low interest loans
    - Tax exemptions/subsidies
    - Contracting and provider payment
  - Non-financial
    - Training
    - Credentialing
    - Social marketing

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