



CHANGING PUBLIC PRIVATE PARTNERSHIP MIXES IN HEALTH CARE SECTOR IN SOUTH-AFRICA

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ABSTRACT

Public and private partnership is an answer to the high demand for infrastructure which is at all times high. Private companies in conjunction with the public sector or one of its branches have therefore introduced this solution which provide a more integrated financial design construction, maintenance and operational solution to infrastructure projects. This study was aimed at examining changing public private partnership (PPP) mixes in health care sector in South-Africa. The study was carried out to reflect/reveal or bring to light the perennial problems of the healthcare mixes within a period of six months. This research examined the public-private sector mixes in healthcare system using South Africa as a case study. South African law examined PPP as a contract between a government institution and private party performs an institutional function and/or uses state property in terms of output specifications, whereby, substantial project risk (financial, technical, operational) is transferred to the private party, while the private party benefit through unitary payments from government. South Africa has long recognized partnership of the public and private sectors as an important policy objective in healthcare but poor documentation has hindered the knowledge of her experiences. A number of factors have been identified to be behind the success public private interactions in South Africa.

INTRODUCTION

Health care delivery is one of the major areas every responsible government takes seriously. In most advanced nations, large sum of money is budgeted for it. Professionals and Technocrats devise means of putting up policies that will ensure efficient and effective health care delivery. Apart from the policy making aspect, those saddled with the responsibility of implementing these policies do not relent in making sure that the policies are properly implemented. This is because of the view that "Health is Wealth", in other words, 'to have a wealthy nation, the people must be healthy'.

Public Private Partnership (PPP) refers to a form of co-operation and collaboration between public authorities and the world of business, which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of better services, better quality, better value (efficiency) and better health at a relatively cost effective manner or approach to the society.

The main characteristics of PPP is the relatively long duration of the relationship, whatever the role of private funding and whatever the distribution of risks between the public partner and the private partner. PPP brings a

marriage between partners, relying on the strength of the individual partners, and allowing each partner to operate into the field where his/her strength is optionally relative to that of their partners.

PPP also ensures features such as exchange of resources, shared responsibility, risk and rewards and is arranged with the aim to provide a public service/asset. The shift towards public-private partnership is gaining momentum due to several factors, arguably, the most influential forces in favour of PPP is lack of funding for the desired projects. PPP is not new. It is as old as man began to function as an organization. Individuals with extraordinary strength differentiated into the defense of other territories, those with leadership qualities led as political leaders. Those who are 'opposers' or fighters developed antagonistic skills which check mate the excess of the other party; others act as by standers and others followers.

Health care in South Africa comprises most basic primary health care, offered free by the state, to highly specialized, hi-tech health services available in the both the public and private sector. However, the public sector is stretched by health burden of large populace and also it is under-resourced. While the state contributes about

40% of all expenditure on health, the public health sector is under pressure to deliver services to about 80% of the population. The private sector, on the other hand, run largely on commercial lines and caters for middle- and high-income earners who tend to be members of medical schemes. It also attracts most of the country's health professionals.

This system is not only inequitable and inaccessible to a large portion of South Africans, but institutions in the public sector have suffered poor management, underfunding and deteriorating infrastructure. While access has improved, the quality of health care has collapsed. The situation is compounded by public health challenges, including the burden of diseases such as HIV and tuberculosis (TB), and a shortage of key medical professionals.

However, the South African government is responding with a far-reaching reform plan to revitalize and restructure the South African health care system, including.

- Speeding up the implementation of a National Health Insurance scheme, which will eventually cover all South Africans.
- Strengthening the fight against HIV and TB, non-communicable diseases, as well as injury and violence.
- Improving human-resource management at state hospitals and strengthening co-ordination between the public and private health sector.
- Deploying "healthcare teams" to communities and schools.
- Regulating costs to make health care affordable to all.
- Increasing life expectancy from 56.5 years in 2009 to 58.5 years in 2014.

This study was aimed at examining changing public private partnership mixes in health care sector in south-africa

METHODOLOGY

The study was carried out to reflect/reveal or bring to light the perennial problems of the healthcare mixes within a period of six months. This research examined the public-private sector mixes in healthcare system using South Africa as a case study.

In analyzing the changing public-private sector mixes, these questions were asked and efforts made to answer them.

- a. Are there changes in public-private sector mixes in healthcare systems?
- b. Can public-private sector partnership bring about effective and efficient service delivery?
- c. How can South Africans benefit through public-private sector partnerships?

RESULTS

PPPs in South African Law

PPP is defined in South African law as a contract between a government institution and private party performs an institutional function and/or uses state property in terms of output specifications, whereby, substantial project risk (financial, technical, operational) is transferred to the private party, while the private party benefit through unitary payments from government.

PPP in South African Healthcare Sector

South Africa has long recognized partnership of the public and private sectors as an important policy objective in healthcare, but there has been limited and poor documentation to experiences achieved so far. After functioning for some time in an increasingly regulated and structured environment in dealing with the private sector in South Africa, it was important to South African Government, to carefully review the terminology used in this evolving field.

As the definitions and mechanisms impacting on this form of interaction became clear, it was essential to find a broader definition to encompass all forms of commercial intervention between the two sectors.

In preparation for the first South African National Health Summit during 2001, the term public private interaction (PPI) became a general term used in this context. In the South African healthcare sectors this term is used specifically to indicate that all forms of interaction between the two sectors should be considered, rather than merely focusing on specific Public Private Partnerships (PPPs), that have a much narrower definition. Recent health policy documents in South Africa all stress four key goals; equity, coherence, quality of care and efficiency, which provide a useful basis for decision-making about PPIs.

The variations of public-private interactions that may support or constrain the South African health system's development are set within the overall public/private mix of the country. In developing an equitable, efficient, coherent and high quality health system in South Africa, there is considerable potential for constructive engagement (collaboration and co-operation) between the public and the private health care sectors. Both sectors should embrace this opportunity and therefore it is useful to propose some basic guidelines for engagement based on the vision and goals of the national health system. In deciding whether or not to pursue any new PPI within the health sector, or in evaluating whether an existing PPI should continue or be revised, it is necessary to assess its merits in relation to the achievement of health system goals.

Evidence of PPPs so far

A review of South Africa treasury's PPP website showed that up to 2011, 7 out of 22 completed PPPs were in the health sector, of these most dealt with hospital and

facility infrastructure and only 2 covered health services or products. However, more number of PPP in health has been developed in recent time.

The state vaccine institute is a PPP involving healthcare companies in the 'Biovac' consortium and was aimed at revitalizing local vaccine manufacturing capacity.

Other completed PPP in South Africa health sectors are

Polokwane hospital renal dialysis unit completed in 2006, this was included in the national treasury and Wits Business School as an example of a successful PPP which could be used as a model for other projects.

Diflucan Partnership Program (DPP) is a partnership between Pfizer and National Department of Health (NDOH) to improve access to HIV/AIDs medicines and services. Its success however emphasized the importance of oversight role of the government, and also quality of relationship between the partners.

The Anglo Gold Ashanti Health (AGAH) workplace TB/HIV AIDs wellness program is based on national policy guidelines and interacts with the public sector to report care as well as enable the community follow-up by the public sector, but there is no community service provider beyond AGAH employees.

Most of the PPIs review was informal without a written agreement or formal contract in place. Netcare was one of the companies that had formal PPPs with the departments of health. Netcare implemented six (6) hospitals in PPP, where the company made the capital investment required to upgrade public hospital including infrastructures, equipments and fittings.

Discover Health and Vodacom had no contractual agreement with the government but has directly and indirectly supported programs for public benefits or use the resources, skills and innovative capacities to implement initiatives aimed at strengthening the public health system. The Discovery health focuses on collaboration in key areas such as developing human resource for health, improving the quality of health care services in both private and public health care particularly in the rural region.

DISCUSSION

Three Basic Tests for PPPs

There are three internationally applied standard tests to determine whether a PPP is the appropriate vehicle for procuring a public asset or service.

Can substantial risk be transferred to the private sector?

Is the project affordable to the procuring institution?

Does a PPP procurement option show value for money?

Risk: The public sector does not always manage risk well. For example, if an institution is building infrastructure, construction may be completed late and

budgets may be overspent. This is not in the public interest. A key characteristic of PPPs is the transfer of risk from the public sector to the private sector. If the private sector does not complete construction on time and within budget, it will not be paid by the procuring institution. This principle also applies to the provision of services. If the agreed upon services are not available or do not meet the agreed upon standards, the private party faces financial penalties. However, it is important to understand that the institution does not transfer all the risks to the private sector. Only those risks that the private party is best able to manage are transferred

Affordability: One of the most important tests for a PPP is whether the procuring institution can afford it, given its available budgets. Sometimes, institutions have not budgeted adequately for their infrastructure and service delivery needs. Budgets may need to be reviewed once proper business cases have been prepared and evaluated.

Value for Money: To determine whether or not to procure infrastructure through a normal tender process or through a PPP, a value-for-money test needs to be applied. How much will it cost for the institution to provide infrastructure and services itself compared to the costs of providing the same infrastructure and services through a PPP? If the comparison shows that a PPP is more cost-effective, the difference in cost between the two scenarios is known as value for money. If the value-for-money test agrees that the traditional procurement method is more cost effective, the PPP option would not be pursued. The most important factor in ensuring the success of a PPP, and a conducive PPP environment generally for it to thrive, the government and the private sector must share a strategic long-term vision that sees PPPs as valuable contributors to economic growth, employment and nation-building.

Factors Contributing to a PPP's Success

A number of factors have been identified to be behind the success public private interactions in South Africa.

- Ensuring PPIs are strategically important to national goals. Considerations were made to identify and indulge in PPIs that are required to solve particular national and local problems and was not viewed as a 'one-size-fits-all' approach.
- Increase of government of capacity to manage public provider collaborations. As where adequate capacity is not developed, collaboration yields poor outcome and may even have negative consequences for the health sector.
- Building a knowledge base on what works, where and why; this is needed to identify evidence of effectiveness of PPIs in the health sector, from regular and a comprehensive review to access the impact and quantify the extent its contribution to achieving national goals. For example, there are claims that PPPs are skewed in favor of the private sector, that public sector rarely succeeds in leveraging benefits on behalf of the public. An

objective assessment of the existing partnerships especially those in which there are contractual agreement with government would better inform this debate.

- Moving from pilots to large scale interactions; South Africa government encourage the coordinated efforts of small scale interaction which merges to bring out stronger combined impacts, example Gold mining companies in South Africa are implementing highly effective TB programs.
- Encouraging innovation and learning; the private sector or the public sector can bring innovation and new technology to solve public health problem, bringing about a “state –of –the art” business practices and system. For example, the public sector trains and produces qualified healthcare professionals that reward the private sector enterprise on the other hand the private sector add innovation in new technologies and diagnostic services to the public enterprise.
- There are good transaction advisors who understand the procuring institution’s requirements and service delivery mandates. A thorough and rigorous feasibility study is conducted. Appropriate risk is transferred to the private sector to ensure value-for-money outcomes.
- The institution has strong management skills. The institution has strong relationship and communication skills. A proper monitoring and evaluation model is necessary for ensuring continuous value-for-money outcomes.
- Coherent legislation and regulations for procuring PPPs at the national, provincial and municipal levels are in place.
- The stewardship role of the government also ensured support and ownership of interactions at all level of the health system, the presence of high level representation to make decisions and respond quickly to proposed changes was a key success factor in PPPs of Gauteng province.

Millennium Challenge Corporation (MCC) Model

Public-private partnerships are an important way to fund and sustain infrastructure, projects and public services. They can be quite complicated to complete, with numerous conceptual and structural issues to resolve. Millennium Challenge Corporation’s business model, because it is so tightly focused on timing and funding, does not provide the flexibility to do all of the preliminary work that is often necessary to lay the foundation for successful completion of public-private partnerships. Strategic collaboration with other investment partners enables MCC to create opportunities for private sector participation in infrastructure and public services in its programs. Partnering with the World Bank’s Public-Private Infrastructure Advisory Facility (PPIAF) and the International Finance Corporation (IFC) has proven particularly fruitful.

Public-Private Infrastructure Advisory Facility Background

The Public-Private Infrastructure Advisory Facility (PPIAF), a multi-donor facility managed by the World Bank and a facility to which MCC has been a donor since 2009, is the leading donor in facilitating public-private partnerships on a global basis. PPIAF’s mandate is to act as a catalyst to increase private sector participation in infrastructure and thereby achieve sustainable development. PPIAF provides technical assistance grants to governments to support the creation of a sound enabling environment for providing basic infrastructure services by the private sector, thereby facilitating PPP transactions and pioneering deal structures.

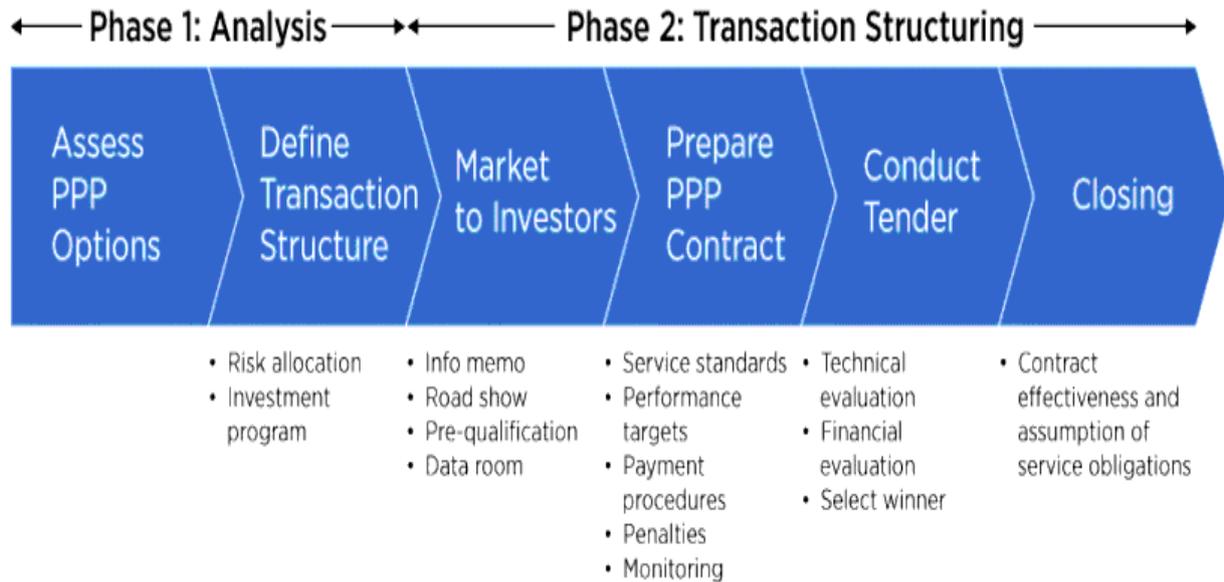
PPIAF’s grants help governments frame infrastructure strategies; develop consensus around them; design specific policy, institutional, and regulatory reforms; support specific path-breaking transactions; and build government capacity to design, execute and regulate PPP arrangements. Through its sub-national technical assistance window, PPIAF also assists local-level governments and entities such as utilities or financial intermediaries to access private capital markets without sovereign guarantees, thus facilitating local sources of finance for infrastructure.

International Finance Corporation Background

The International Finance Corporation (IFC) is the world’s largest multilateral provider of financing for private enterprises. IFC also provides technical assistance and transactional advice to governments and businesses. In its PPP advisory capacity, IFC helps governments design and implement PPPs. As a PPP transaction advisor, IFC’s work typically breaks down into two phases as seen in table 1 below.

Phase 1, transaction analysis and due diligence and.

Phase 2, transaction structuring and execution.

Table 1: Phases of a Public-Private Partnership.

Healthcare in South Africa

South Africa's public healthcare system is overburdened, and unable to provide standards of care and treatment equivalent to those available in North America and much of Europe due to a lack of resources. Waiting times for treatment can be lengthy and hospitals stretched in terms of space as well as resources.

In contrast to the public healthcare system, South Africa's private healthcare facilities are highly regarded in terms of quality, especially those in the big cities, and there are large numbers of people from overseas who travel to the country to make use of its private medical facilities and expertise for elective medical procedures. Because the standard of care at public health facilities may not be adequate, the UK government advises those travelling to South Africa to obtain comprehensive medical insurance before setting off. This is because comprehensive international medical cover includes the costs for seeing a doctor, so you have access to GP consultation covered as well as hospital treatment.

The South African government plans to build at least 43 hospitals and 213 clinics in the next five years for the country's proposed National Health Insurance (NHI) system. The Department of Health also plans to refurbish and re-equip 870 clinics in the 11 NHI pilot districts. The building of 43 brand-new hospitals would facilitate a seamless referral system upwards.

Since 1994, access to health services had been a priority for the government, "Many areas, especially black rural areas, did not have primary healthcare facilities in the form of clinics. Hence, a lot of clinics were constructed in the rural areas under a special program foreseen at the national level but implemented at provincial level. Today, more than 40% of all clinics existing in South

Africa were built after Tata Nelson Mandela became the first democratically elected president.

According to Statistics in South Africa, the number of people who go directly to clinics had increased from 44.5% in 2004 to 55.6% in 2012, this was an indication of increased access to primary healthcare facilities. Annual per capita expenditure on health ranges from \$1,400 in the private sector to approximately \$140 in the public sector, and disparities in the provision of health care continue to widen. The national public health sector, staffed by some 30% of the doctors in the country, remains the sole provider of health care for more than 40 million people who are uninsured and who constitute approximately 84% of the national population. Approximately 16% of South Africans (8 million people) have private health insurance that provides access to health care from the remaining 70% of doctors who work full-time in the private sector. Up to 25% of uninsured people pay out of pocket for private-sector care. In recent years, permission for senior full-time staff in the public sector to spend a limited proportion of their time working in the private sector has diluted their public-service activities. Many of the state hospitals are in a state of crisis, with much of the public health care infrastructure run down and dysfunctional as a result of underfunding, mismanagement, and neglect. This has been most visible in the Eastern Cape Province but is also striking in other regions.

CONCLUSION

South Africa has long recognized partnership of the public and private sectors as an important policy objective in healthcare but poor documentation has been identified as the bane for the lack of understanding her experiences.

A number of factors have been identified to be behind the success public private interactions in South Africa. These can be used by developing countries to improve their public private partnership in healthcare sectors.

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