Netcare: A Model of Sustainable Healthcare Delivery in Africa

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On October 21, 2011, officials gathered to mark the opening of Lesotho’s new state-of-the-art hospital, a project funded through an innovative public-private investment partnership (PPIP) model, the first of its kind in Africa. Lesotho’s Ministry of Finance and Development Planning and the Ministry of Health and Social Welfare formally entered into the PPIP with the Tšepong consortium, a group of local and international healthcare providers, in October 2008. The capital costs of the project, which also includes three filter clinics, are estimated at $120 million. The Government of Lesotho’s capital contribution was roughly 36 percent of total costs, with the remaining 64 percent coming from private sources, primarily the Development Bank of Southern Africa and the Tšepong consortium.

The Tšepong consortium was formed specifically to develop the PPIP. South Africa’s Netcare Healthcare Group holds the largest stake at 40 percent, with additional ownership from local and South African groups. This structure has fostered significant community and political participation, contributing to the project’s long-term viability. With both public-private partnerships (PPPs) and PPIPs, political will and trust between the public and private sectors are fundamental to a project’s success. The Tšepong stakeholders represent local and international, small and large businesses. Moreover, local ownership accounts for 40 to 55 percent of the total ownership.

Where PPIPs distinguish themselves from PPPs is in the inclusion of clinical services. While PPPs resemble private finance initiatives, in PPIPs the private sector not only provides investment in buildings and maintenance, but also delivers all clinical and non-clinical services. Put differently, Lesotho’s PPIP can be understood as a design, build and full operation model, rather than as a simple outsourcing. Tšepong is responsible for complete healthcare services delivery and services payment, and the agreement stipulates several performance monitoring mechanisms. In addition, the nature of PPIP commitments by definition requires long-term contracts and, in Lesotho, the government has contracted with the Tšepong consortium for an 18-year period.

As with PPPs, value for money constituted a key aspect of the PPIP agreement. An IFC report found that the PPIP successfully achieved “cost neutrality” because the government does not pay significantly more for the new hospital than it previously spent on the Queen Elizabeth II hospital, a
100-year-old facility with serious shortcomings. Furthermore, the fee patients pay will remain the same. In sum, the PPIP model in Lesotho provides a low-income country with higher capacity and cutting-edge facilities without raising the price paid by either patients or the government.

**What is the Relevance?**

In a recent interview with Moneyweb, a South African online source of investment information, Netcare CEO Richard Friedland heralded Tšepong’s investments as the future of Netcare’s approach to Africa: “Governments of developing countries need to decide whether they are going to be a provider or a purchaser of healthcare. The Lesotho government has set the example…. We said bring it on.” Previously, Netcare operated in South Africa and the UK, primarily serving middle-income patients. In Lesotho, the PPIP allows Netcare to expand its patient base to new populations, and therefore to new markets and business opportunities. This comes at a crucial time for Netcare, as the company recently saw poor financial results in its projects in the UK.

Netcare has extensive PPP experience, but the Lesotho project represents a radical departure from its previous South African models. In South Africa, Netcare assumed responsibility for building, operating and transferring. In Lesotho, Netcare will assume full responsibility for all clinical outcomes, from hiring doctors to providing medical equipment.

Significant obstacles often stand in the way of sustainable healthcare solutions in low-income countries, from insufficient funds to a lack of local ownership. However, demand for basic healthcare services throughout the Southern African Development Community region is enormous. Healthcare needs are particularly severe in Lesotho, where the HIV/AIDS prevalence is the third highest in the world and one out of 32 women die of pregnancy and child birth-related conditions. The hospital and three filter clinics address a crucial need. In the hospital’s first two weeks, more than 7,500 outpatients visited the hospital and 764 patients were admitted.

Moreover, the Lesotho PPIP provides a framework for a greater integration of public and private healthcare services delivery. There are 35 beds in the new hospital that Netcare can use to generate revenue from privately insured patients (Netcare may also use government infrastructure, such as radiology and theatres, to generate returns). In addition, the hospital includes 395 general ward beds. Thus in one state-of-the-art hospital, patients in both private and public beds will receive high-quality clinical care.

The PPIP model provides the innovative funding mechanism necessary to allow the private sector to expand to low-income patient populations while still providing high-quality care. The multi-stakeholder Tšepong consortium works to promote sustainability by ensuring collaboration between local, domestic and international groups. The Lesotho PPIP has moved beyond traditional PPPs, opening the door to
unconventional financing solutions in the process. Development experts have often celebrated PPPs as “win-win” situations. In the health sector, PPIPs build upon the strengths of PPPs to actually create the long-term, structured relationships between the public and private sectors for improved patient outcomes.

Why hasn’t this been done before?

Successful PPPs not only require political will, but also implementation of complex agreements. Going further, the nature of the health sector itself gives rise to a unique set of challenges. The transference of responsibility to the private sector complicates contract management. While traditional infrastructure PPPs focus primarily on day-to-day issues, healthcare projects often require the contracting authorities to plan for unforeseeable changes—such as increases in patient demand—and evolving stakeholder strategies.

In Lesotho, the government engaged the IFC, and the IFC in turn brought in the private sector. Here, the IFC Infrastructure Advisory Services Department, which advises governments on how to incorporate the private sector into development projects, acted as the key mediator. The IFC served as the government’s lead transaction advisor by providing crucial services—including risk mitigation—to ensure the successful implementation of a highly complex agreement. The IFC also negotiated a set of competing objectives to develop a project that met the needs of the public and the government, while simultaneously attracting the private sector to facilitate a competitive bidding process.

In addition to mediating the agreement, the IFC boosted political will through a PPP Awareness Workshop, during which participants learned about PPP models used in other countries and the outcomes of such examples. The IFC and the World Bank also helped Lesotho create attractive policies to encourage a greater private sector role.

As an advisory body, the IFC manages a team of technical consultants and transaction lawyers. Technical consultants define the functional specifications of the PPPs and advise on logistics. Transaction lawyers draft the legal contract and tender procedures. Lesotho’s Finance Minister Timothy Thahane noted that while there was strong political will for the project, the country’s lack of trained lawyers and international market experts left a deficit in technical know-how. With over 20 years of PPP experience, the IFC addressed this deficit by providing the necessary support and expertise to produce baseline studies, evaluate bids, and protect the government from legal, financial, and operational risks.

As the only multilateral institution offering direct PPP transaction advisory assistance to governments, the IFC played a vital role in the project. The IFC helped to garner political will, provide expertise, and bridge public and private sector interests.
Next Steps

One possible reason for why the Lesotho project was the first of its kind is that—to ensure the political will for and success of a long-term, highly structured agreement—the project needed a third party to act as mediator. While the Lesotho PPP hospital experience is still a new phenomenon in Africa, the IFC has already announced its intention to build upon the Lesotho model in Nigeria. The IFC and the private sector alike had previously suggested the potential for Lesotho’s hospital to serve as an example for other countries. The announcement of Nigeria’s Cross River State hospital on November 14, 2011 offered encouraging evidence in support of such suggestions.

More specifically, the announcement proposes a continuing role for the IFC as a technical advisor and broker in such healthcare projects. An IFC press release stated that in providing advisory services to the Cross River State hospital project, it “builds on a successful mandate IFC received to help the government of Lesotho.” The IFC will help to identify the company that will build and operate the hospital, which, in turn, will create another valuable opportunity for the private sector.

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