

## Lesotho's controversial public-private partnership project

A new hospital in Lesotho's capital, set up and run through a public-private partnership, has been under scrutiny because of its financial cost to the country's government. Paul C Webster reports.

Visitors to the Queen Mamohato Memorial Hospital in Maseru, Lesotho's small capital city, enter a building unlike any other in this impoverished country of 2 million people surrounded by South Africa. Built at a cost of at least US\$100 million and operated under an 18-year contract between the Lesotho Ministry of Health and a consortium assembled by Netcare, the largest operator of private hospitals in South Africa and the UK, the 425-bed facility is an outpost of stylish architectural functionalism in threadbare Maseru. Like Netcare's hospitals in South Africa, the Queen Mamohato, which opened in 2011, is a spacious clinical oasis furnished with technologically-advanced care units and patient-friendly lounges and wards. According to the World Bank, which helped Lesotho negotiate financing for the construction of the hospital along with three feeder clinics, the Mamohato project serves as a model for public-private partnership (PPP) financing for health-care facilities and services in other low-income countries. It's a concept World Bank officials currently promote in countries including Myanmar, Nigeria, and Tunisia.

Clinicians at Queen Mamohato sing its praises. "It's a wonderful place to work", beams Malikotsi Metsing, a Lesotho native who studied medicine in Australia and practised in South Africa before coming to work at the Queen Mamohato 2 years ago. "What attracted me is the quality of the facility, and the professionalism of the management", she explained. "Because of it, there is now a chance for young physicians from Lesotho to make careers for themselves at home."

In the past, Metsing worked at Maseru's other hospital, the government-operated Queen Elizabeth II, which is housed in a

dilapidated assembly of century-old shed-like structures in the city centre. According to Metsing, "even just getting oxygen for patients was a struggle" at the 450-bed Queen Elizabeth, and making routine decisions about "simple issues such as the type of food suitable for babies" required layers of bureaucratic approval. On the

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maternity and paediatric wards, she recalled, overcrowding was endemic. There were no intensive-care facilities even remotely comparable to those at the Mamohato, she added.

**"Political mess"**

Those are criticisms that Lucy Mapota, the Queen Elizabeth's superintendent, freely accepts. The old hospital is a relic that was originally slated for closure when the Queen Mamohato opened. There are frequent shortages of drugs and medical supplies, she said. But problems such as these plague all

the public health services in Lesotho. And many of the gaps in the country's public health fabric, Mapota believes, can be directly traced to payments from the Ministry of Health to the consortium assembled by Netcare and several Lesotho-owned businesses and provider-associations that won the Mamohato contract in a process stewarded by the World Bank's International Financial Corporation (IFC). "The cost of the new hospital is depriving the entire health system", Mapota asserted bluntly. "It's a big political mess."

The Ministry of Health's headquarters in Maseru echoes with similar complaints. Ntoetse Mofoka, who heads the Ministry's PPP unit, says payments to Netcare's consortium, which is known as Tsepong, have increased almost 80% since 2008, when Tsepong first contracted with the government to build and operate the hospital. "The rate of payment increase is scary", she said.

Criticism of Tsepong's contract with the Ministry arose almost immediately after the Queen Mamohato project



Malikotsi Metsing

For the *Oxfam* report see <https://www.oxfam.org/en/research/dangerous-diversion>

For the paper in *Health Affairs* see <http://content.healthaffairs.org/content/34/6/954.abstract>. *Health Aff* 2015; 34: 954-62

For the *Addis Ababa conference statement* see <http://www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/2015/04/Business-Forum-Summary.pdf>



The Queen Mamohato Memorial Hospital, Maseru, Lesotho

was first announced in 2008, says Lehlohonolo Chefa, director of the Consumers Association of Lesotho. According to Chefa, however, it wasn't until 2012, about a year after the hospital opened, that a change in Lesotho's Government led to public disclosure of the exact financial arrangements brokered with guidance from the World Bank's IFC. Under the terms of the contract, Lesotho's public learned, the consortium was to be paid a \$32.6 million index-linked annual unitary charge for up to a maximum of 20 000 in patient admissions and 310 000 outpatient attendances (or about a third of Lesotho's total hospital demand). Beyond this cap, the consortium can bill extra for each additional patient. As for the initial construction funds, the Government of Lesotho had contributed almost 40%, with almost 60% provided by the Development Bank of Southern Africa (which is owned by the Government of South Africa) and less than 4% provided by Netcare. "None of this should ever have been secret", said Chefa. "The contract should have been published as soon as it was finalised."

### Oxfam investigation

As the clamour over the terms of the contract grew, analysts with the UK-based charity Oxfam visited Maseru to investigate in early 2014. Anna Marriott, the Oxfam policy adviser who led the investigation in Maseru, said her interest was triggered by statements from World Bank officials promoting the Queen Mamohota as the first hospital in any low-income country to be designed, built, financed, and operated under a PPP that includes delivery of all clinical services. World Bank and IFC officials, she noted, proclaimed the project as "opening a new era for private sector involvement in health care in Africa" and proving the PPP model improves care "without really adding to public expenditure".

Oxfam notes that financial support for the IFC advisory facility on health PPPs is being provided by the

Governments of the Netherlands, South Africa, and Japan. The Government of Canada has also now generously embraced the private-public model for development funding.

In April, 2014, Oxfam released a report charging that the hospital contract granted Netcare and its consortium partners substantial profits while creating "a dangerous diversion of scarce public funds from primary health-care services in rural areas, where three-quarters of the population live". In a country that ranks 158th out of the 186 countries on the UN's Human Development Index, and has the world's third-highest HIV prevalence, Oxfam's criticisms have serious implications for a large swath of the population. Life expectancy in Lesotho fell by 10 years between 1990 and 2011, from 59 to 49 years.

**"Even before the Queen Mamohato contract was signed...health spending in Lesotho was already skewed towards urban-based tertiary care."**

Even before the Queen Mamohato contract was signed, Oxfam observed, health spending in Lesotho was already skewed towards urban-based tertiary care. The contract "dramatically exacerbated this inequitable trend by absorbing over half of the Ministry of Health's budget in 2013/14, up from 28 per cent for the old public hospital in 2006/7", Oxfam reported.

For Marriott, perhaps the most crucial finding from Oxfam's investigation of the Mamohato contract controversy is that the Government of Lesotho lacked the technical capacity to negotiate the contract, and ended up agreeing to disadvantageous terms. According to an unpublished report obtained by Oxfam that was prepared for the World Bank by an external academic consultant who described the Lesotho project as "the most ambitious PPP in the health sector ever undertaken

internationally", the project's financial forecasts suffered from a "projection error" resulting in dramatic underestimation of government costs. "Without significant investment and reform in the wider health system", the World Bank's internal report concluded, "the PPP is likely to become unaffordable for the MoH [Ministry of Health], and the quality of service provision may also be put at risk".

Lesotho's experience, Oxfam concluded, supports international evidence that health PPPs of this kind are risky and costly, and fail to advance universal and equitable health coverage. "It is critical to question whether cheaper alternatives to financing the build of the new hospital were comprehensively pursued", the Oxfam report noted. The real cost of the new privately run hospital is already nearly two and a half times the amount that was agreed as affordable between the Government of Lesotho and the IFC before the contract was awarded, Oxfam asserted: "The IFC should be held to account for the poor quality of its advice to the Government of Lesotho and for marketing this health PPP as a success internationally, despite its unsustainable costs".

### Patient outcomes

Netcare declined to comment on the situation in Maseru. Instead, the company referred *The Lancet* to a set of World Bank-commissioned studies published by a group of researchers based at Boston University, MA, USA. In a study funded by the World Bank Group's Global Partnership on Output-Based Aid and published in the journal *Health Affairs* in June, the Boston University researchers concluded that "results from the analysis of baseline and endline studies indicate that the PPP-managed network in Lesotho delivered more clinical services and services of higher quality and achieved improved patient outcomes, compared to the government-managed network. The PPP-managed network's infrastructure,

staffing and resources, access to data, clearly defined procedures and policies, staff accountability, and leadership may account for the improved performance. Findings from Lesotho suggest that a health care public-private partnership may present opportunities for other developing countries to broadly improve their clinical and organizational performance."

In Maseru, Majoel Makhakhe, the now-retired head of the Ministry of Health planning unit that recruited the IFC to help negotiate the contract, agreed with Oxfam that the government lacked the capacity to negotiate the PPP deal. The government, she added, failed to anticipate the new hospital's popularity for patients and the consequent cost increases arising from contractually stipulated payments for additional patients. Most importantly, she believes, the Ministry "overlooked" the need to bolster the capacity of the primary health-care system before building the new hospital. "The IFC might have advised us to first renew the system, and then build the referral hospital", she reflected.

Timothy Tahane, a former vice-president and secretary of the World Bank who presided over the Queen Mamohato contract negotiations while serving as Lesotho's finance minister until 2012, remains unapologetic. "The government could have built the new hospital, but we didn't have the capacity in government for efficient management", he explained. The Oxfam report, he insisted, overlooks savings achieved by the new hospital's success in reducing the number of patients referred to South Africa for specialist care, and diminishes the many positive clinical effects documented by the Boston University researchers. "We could not retain doctors due to the poor quality of the work environment", he recalled in an echo of Malikotsi Metsing's comments. "Oxfam's fundamental error was simply measuring financial outcomes but not health outcomes and the health quality factors. They

targeted the IFC and came to Lesotho to validate their preconceived notion that private investment in health is not a good thing. Their profiteering allegations are undocumented."

If there was anything that could have been done differently, Tahane reflected, it was that "we did it so quickly. We did not pay enough attention to educating the public and the media."

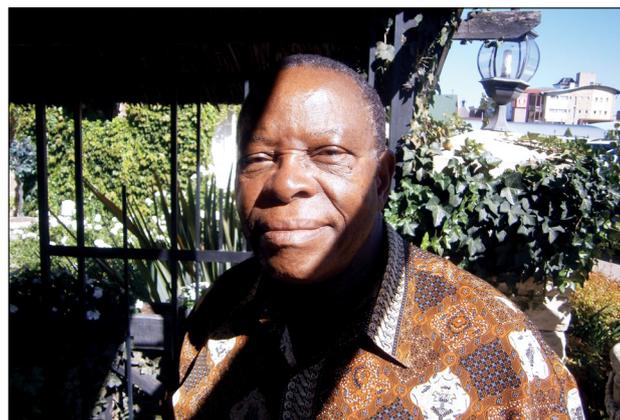
### Lessons learned

In Washington, DC, Paul da Rita, head of the IFC's Global Health PPP Advisory, says the Lesotho project has proven instructive. IFC efforts to help the Government of Lesotho to manage the PPP contract were affected by high staff turnover, he suggested, which indicates that sustained efforts to develop local PPP contract management expertise are crucial. The project also revealed the need to engage in broad primary health system strengthening when delivering a secondary and tertiary care "island of excellence", he added, in an echo of Makhakhe's opinion. But the Boston University research team's findings reveal that "even in a very difficult environment, you can deliver good results", he said.

### "Projects involving blended finance, including public-private partnerships, should share risks and reward fairly'..."

Other examples of successful IFC-assisted health PPPs in low-income and middle-income countries, says da Rita, include a project that provided three diagnostic imaging clinics in the Indian state of Andhra Pradesh, and the Hospital do Subúrbio in Brazil's Bahia state. "In the right context", he noted, health PPPs in developing countries "are part of the toolkit of options" to finance projects. "But we recognise that they don't always work, and that we have to be careful about assessing each project on its own merits."

A consensus statement issued at the outcome of the UN's Third International Conference on



Timothy Tahane, Lesotho's former finance minister

Financing for Development in Addis Ababa, Ethiopia in July, arrived at a similarly cautious endorsement for PPPs such as Lesotho's. "Projects involving blended finance, including public-private partnerships, should share risks and reward fairly, include clear accountability mechanisms and meet social and environmental standards", the statement reads.

At Oxfam, Anna Marriott continues to challenge the case for PPPs in poor countries. The IFC's PPP model compares unfavourably with traditional financial models of publicly delivered health system investment, she insisted, after noting that the World Bank ought to be able to help countries obtain borrowing rates far lower than those that are packaged into PPPs. "We are not claiming that any system is perfect, but why set up complex, risky, and very costly experiments with the private sector when there are these ready-made examples to learn from and build on?"

As for its role in Lesotho's plight, says Marriott, the World Bank should both "finance and publish a fully independent and transparent expert financial audit and broader review of the Lesotho health PPP in partnership with the Government of Lesotho, including a presentation of the full range of options available to remedy the negative impact of the partnership".

Paul C Webster