

# Public Private Partnerships (PPPs): A Credible Alternative Financing Mechanism for Nigeria's Health Sector

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## Abstract

Due to paucity of funds, the Nigerian Government has been unable to adequately fund healthcare in the country. The problem with healthcare in Nigeria is two fold: the first is the lack of physical infrastructure i.e. facilities and modern equipment and the second is the dearth of trained medical personnel. Consequently, unlike in traditional infrastructure PPPs, the financing problem is not merely related to initial high capital expenditure but the continued funding of projects post construction. This article looks at PPPs as an alternative financing mechanism that can bridge the infrastructure gap in the healthcare sector.

**Keywords:** Healthcare, Finance, Public-Private Partnerships,

## 1. Introduction

The dire state of Nigeria's health care system has been well articulated over the years<sup>1</sup> and internationally acknowledged.<sup>2</sup> However, the recent outbreak of the Ebola Virus Disease (EVD) coinciding with the industrial strike by medical doctors in the country has increased attention on the sector more than ever before. The problems with healthcare in Nigeria are numerous and varied,<sup>3</sup> however the major issue remains the dearth of finance for the sector. Nigeria's 2015 total healthcare budget was =N=259.75bn a decrease from the 2014 budget which amounted to =N=262.7bn which itself represented a 6.7% decrease from the 2013 allocation. These figures were all less than 5.7% of the entire budget and a far cry from the 15% recommended by the World Health Organization.<sup>4</sup> It is also important to note that 77% of the entire health care budget is allocated for the payment of personnel emoluments, leaving only a small portion for capital projects.

The statistics enumerated above show that the Nigerian Government has been unable to adequately fund healthcare in the country and obviously will not be able to do so in the near future. Thus it has become necessary to consider other viable alternatives for providing critically needed health infrastructure. Public Private Partnerships (PPPs) seem to be that alternative. PPPs have worked very well around the world and even in Nigeria in a number of infrastructure sectors, however PPPs in healthcare is unique because the problems which it seeks to redress are two fold: the first is the lack of physical infrastructure i.e. facilities and modern equipment and the second is the shortage of trained medical personnel. Consequently, unlike in traditional infrastructure PPPs, the financing problem is not merely related to initial high capital expenditure but the continued funding of projects post construction. The implication is that Government's expenditure continues and remains high even post construction. The goal therefore for Government, is to reduce upfront capital cost as much as possible and to ensure that operational costs in the form of availability payments are manageable and sustainable in the short run and cease completely in the long run. Most critically also, PPPs in the health sector must be designed in such a way to harness the skill, competence and efficiency of the private sector, which most times leads to significant cost reduction. For instance, through a more efficient layout and better hospital management, small sized hospitals may treat more patients than larger inefficiently run hospitals.<sup>5</sup>

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<sup>1</sup> Duru E.J. and Nwagbos C.I 'The Problems and Prospects of Public Health Care and Development in Nigeria's Local Government System' *African Journal Online*, Found at <http://www.ajol.info/index.php/gjss/article/view/22826> (Last accessed 23 September 2014); Aniekwu N.I 'Health Sector Reform in Nigeria: A Perspective on Human Rights and Gender Issues' Local Environment: *The International Journal of Justice and Sustainability*, Northumbria University, Newcastle UK. Vol 11. No.1. 2006, 128-140; Orimisan A' Health Care Financing in Nigeria: Prospects and Challenges" *Mediterranean Journal of Social Sciences* Vol.4 (1) January 2013.Pg. 221;

<sup>2</sup> Ibid

<sup>3</sup> See for example Orimisan Ibid @ pg. 221. According to the author "Some of the factors that affect the overall performance of the health system include; inadequate health facilities/structure, poor human resources and management, poor remuneration and motivation, lack of fair and sustainable health care financing, unequal economic and political relations, the neo-liberal economic policies of the Nigerian state, corruption, illiteracy, very low government spending on health, high out-of-pocket expenditure in health and absence of integrated system for disease prevention, surveillance and treatment, inadequate mechanisms for families to access health care, shortage of essential drugs and supplies and inadequate supervision of health care providers are among some of the persistent problems of the health system in Nigeria."

<sup>4</sup> In 2001 in Abuja Nigeria, African countries also made a commitment to spend 15% of their national budgets on healthcare. Only a handful of countries excluding Nigeria have complied.

<sup>5</sup> Robert Taylor 'The Health Care Challenge' in : International Finance Corporation 'Health PPPs' Handshake Issue #3, Pg.8

## 2. What is PPP?

PPPs are difficult to define. One of the principal reasons for this is because the concept is constantly evolving in various ways in different countries. Therefore characteristics or boundaries of transactions or projects that may constitute PPPs are not closed; new PPP arrangements are constantly emerging. For instance, the European Commission observed that PPP as a concept is still evolving and has divergent arrangements that may be adapted to suit the requirement of projects and project partners on a pragmatic basis.<sup>1</sup>

Nevertheless we may attempt a working definition that suits our topic of discussion. PPPs may be defined as long term relationships between public sector agencies and private sector entities under which the responsibility for any or all of the combination of designing, financing, construction, management and operation of public infrastructure and utilities that were traditionally undertaken by the public sector are contractually shared and jointly undertaken by both the public and private sector, usually in proportion to the kind of risks each party can best carry. PPPs come in different forms usually depicted with different acronyms. However, a number of these so called different PPP arrangements are merely slight variants of one another. Some of the popular variants are:

*Build Operate and Transfer (BOT)*: This is the most popular PPP arrangement. In these type of projects, the private sector entity finances the building of the infrastructure asset and is allowed to own and operate it for a number of years, usually long term ranging from 25 to 30yrs before transferring control and ownership back to the public sector. Normally, the infrastructure is transferred back to the public sector at a zero or at least at a cost less than the assets residual value. These types of arrangements are common with greenfield projects<sup>2</sup>. The idea of a BOT is to benefit from the private sector's detailed knowledge of project design and the materials used in the construction phase can result in the development of a tailored maintenance plan over the project lifespan.<sup>3</sup>

*Build Own Operate (BOO)*: This PPP arrangement is similar to a BOT in the sense that the private sector finances the construction of the infrastructure and is also allowed to operate the infrastructure, however the distinguishing feature from a BOT arrangement is that the private sector is allowed to own the infrastructure in perpetuity. It is important to note that the fact that there is no government involvement in the beginning does not mean that it is not a PPP. The Government may still be involved in fixing tariff and guaranteeing revenues. These types of arrangements are common in the power generation sector.

*Design, Build, Finance Operate (DBFO)*: Under this scheme, the public partner specifies the services it wants the private sector to deliver and then the private partner designs and builds an asset specifically for that purpose, finances its construction and subsequently operates the asset by providing services that derive from it<sup>4</sup>. DBFOs are considered the classic PPP projects and are indeed the most common. The Lekki Road Concession and the MMA 2 Airport terminal both in Lagos, Nigeria are all strictly speaking examples of DBFO schemes.

*Lease*: Leases (*affermage*) as a form of PPP is usually used where the assets are already in existence and therefore it is no longer necessary to make investments in infrastructure or where the risk premium of transferring the responsibility for building of the asset to the private sector is very high. Thus under this arrangement, investment and financing of the infrastructure is done under the responsibility of the public as opposed to the private sector however the commercial risk *a priori*, continues to be allocated to the private sector. The length of contract in leases is usually shorter than in typical concessions. Note even though the arrangements in a lease and *affermage* are similar there is a slight distinction in the sense that the private sector operator usually retains revenue collected from the users of the facility and makes specified lease fees to the public authority, under an *affermage*, the private sector contractor and the public authority share revenues from the customers/users.<sup>5</sup>

*Operations and Management Contracts*: Under this arrangement the public sector basically outsources the provision of services, which were hitherto provided by it to the private sector. The payment for services is made directly to the private partner by the public partner, rather than revenue collected directly from the end users.

*Concessions*: Under a typical concession, the public sector grants (concessions) the private sector (concessionaire) a right to deliver certain services in certain areas for a fee paid by the concessionaire for those rights. The private sector operator is responsible for operation, maintenance and even rehabilitation of the asset including any capital required for upgrade and expansion even though ownership of the asset remains with the government throughout the duration of the concession period. The public sector sets performance standards and ensures that they are met thereby being in effect regulators of the price and the quality of services delivered.

<sup>1</sup> EC Guidelines for Successful Public Private Partnerships 2003, (online) at: [http://ec.europa.eu/regional\\_policy/sources/docgener/guides/ppp\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/guides/ppp_en.pdf) (last accessed on September 17, 2010)

<sup>2</sup> World Bank Found at < <http://ppp.worldbank.org/public-private-partnership/agreements/concessions-bots-dbos> > (last accessed February 27, 2012)

<sup>3</sup> Tvarno C.D. 'Presentation of the PPP Concept' in Tvarno C.D ed. (*Public private Partnerships: An International Analysis- From a Legal and Economic Perspective*; (2010) Asia Link pg. 35

<sup>4</sup> International Monetary Fund (2006), *Public-Private Partnerships, Government Guarantees and Fiscal Risk*, prepared by IMF Staff team, Washington D.C. International Monetary Fund.

<sup>5</sup> United Nations (Economic and Social Commission for Asia and the Pacific) *Guidebook on Public- Private Partnership in Infrastructure*, Bangkok, January 2011. Pg. 4

Note that there are certain baseline characteristics that tie these divergent PPP projects together. Some of these characteristics are listed by the Malaysian PPP Guidelines as:

- i. The relationship between the public and private sectors is based on a partnership, which means that risk is shared between both partners optimally as it is allocated to the party who is best able to manage it.
- ii. The public sector procures specified outputs and outcomes of a service for the contract period whilst the private sector determines the required inputs to achieve the specified output. The private sector is given the freedom to introduce innovation into their design and development to reduce cost; there is thus an integration of design, construction, finance and maintenance and operation.
- iii. Payment for services is based on predetermined standards and performances.
- iv. PPP promotes a 'maintenance culture' where the private sector will be responsible for the long term maintenance of the assets throughout the operational period agreed upon by the parties.
- v. In some instances, there is an option for the transfer of the infrastructure asset back to the public sector at the end of the contract period.
- vi. PPP involves a Whole Life Cycle Costing ("WLCC") whereby PPP projects are usually awarded based on lowest total cost over the contract period compared to lowest construction cost under traditional procurement.<sup>1</sup>

Majority of projects that are classified as PPPs will have a number of these characteristics. Importantly however, the partnership structure must allocate risks and rewards optimally amongst the public and private parties in accordance with the strengths and abilities of each of the parties. It is only this optimal allocation of risks and benefits that ensures that each party contributes in an effective manner to the project.

### 3. Critical Success Factors for Health Sector PPPs

PPP is not a solution to every healthcare infrastructure project. To ensure the consummation of successful projects, it is proposed that at the minimum each healthcare PPP project should meet certain basic criteria. These critical factors required for the success of PPPs in this sector cuts across different types of PPP arrangements. However, whatever the structure, it must take cognisance of the following:

*Political will.* This is important in so many respects, most crucially because PPPs in the health sector continue to require significant government financial support post construction. Therefore government must ensure that there is money available post construction to meet these continuing liabilities whether actual or contingent. Since PPPs are long-term contracts, there is likelihood that successive government administrations will be involved in its execution; there is therefore a need for these administrations to buy into the projects. A number of ways of achieving this is to have a properly drawn up enforceable contract between the parties and ensuring that the PPP procurement process is done transparently, in accordance with the law and devoid of corruption.

*Proper risk Management:* PPPs generally throw up a number of risks that must, prior to the commencement of the project, be properly identified, optimally allocated between the parties and adequately mitigated by the party assuming the risk. Where project risks are not properly managed, it leads to failed projects. This is also true for health sector PPPs and it is good practice to use a risk matrix to first identify risks before allocating them contractually to the party best able to manage them.

*Strong Public Sector Capacity Enhancement:* There is limited capacity within the public sector to negotiate PPP transactions. In the short term this deficiency may be augmented through the engagement of consultants. However in the long term adequate capacity must be built within the Ministry of Health to handle not only contract negotiations but also project monitoring and enforcement post construction.

*Upfront Planning:* In order to ensure budget certainty and avoid cost overrun, adequate attention must be paid to upfront planning as well as conducting detailed feasibility studies before embarking on projects. This position is true for PPPs generally and even more important in health sector PPPs, since there is likelihood that government will continue to make on going availability payments to the private sector post construction. It is also good practice to ensure that the PPP contracts contain detailed output specifications like the standard of expected service delivery, occupancy rate, staff composition, etc. It is against these factors that the performance of the private sector will be measured and therefore payments to it made or penalties enforced.

*Stakeholder Buy-In:* Due to the nature of the assets under consideration, it is proposed that they should remain in the legal ownership of government. Therefore outright privatization should be discouraged. Where concessions of already existing government assets are contemplated, incoming private sector concessionaires should as much as it is feasible retain competent staff. This is to discourage labour resistance to the changes.

*Pro- Poor Schemes:* Agreements should be reached with the private sector operators for the provision of services to poor patients. Due to the importance of the services being provided through PPPs, it might be difficult

<sup>1</sup> Malaysian Public Private Guidelines (2009) PPP Unit, Prime Ministers Department Putrajaya (online) at: [http://www.ukas.gov.my/html/themes/miu/content/ppp\\_bi\\_131109.pdf](http://www.ukas.gov.my/html/themes/miu/content/ppp_bi_131109.pdf) (last accessed on February 29, 2012)

for the private sector to provide the services especially in rural areas without any form of subsidy from the government. It is hoped that as the government and private sector get better at structuring these transactions that health sector PPP services will effectively transition into more cost reflective transactions.

*Full Service Delivery:* Whenever possible fractured or segmented services delivery should be discouraged in favour of full services delivery by the private sector. As stated earlier the problem with the healthcare delivery system in Nigeria as in most developing countries of the world is not just the dearth of infrastructure but also the inadequacy of trained personnel. The approach of encouraging full service delivery will ensure that there is adequate capacity and expertise to manage the infrastructure in the short term and ensure capacity transfer in the long term.

*Improvement in the quality of the National Health Insurance Programme:* A key factor for the success of PPPs is a robust Health Insurance Scheme. This ensures in the long run that the project becomes self-financing and government's availability payments for operational expenses cease. The current Nigerian National Health Insurance scheme (NHIS) has not been very effective as it has been unable to cover a large number of citizens. There is therefore a need to develop a more robust scheme to ensure the long-term sustainability of PPP projects. The Ghanaian scheme, which covers over 70% of the population, is a good example to emulate.

#### 4. The Major Project risks in health sector PPPs

Whilst leveraging on private sector finance and expertise can help address the country's healthcare financing problems, it is important to point out that healthcare PPPs present its own significant challenges and risks. These risks need to be properly managed by ensuring that they are adequately allocated and appropriately mitigated. Below are some of the likely risks that may eventuate in health sector PPPs and some of the proposed mitigation measures:

*Risk of Opportunistic Behaviour by Private Sector:* One of the most common opportunistic behaviour exhibited by private sector health care providers under PPPs is cost shifting.<sup>1</sup> Cost shifting is a process where the private sector hospital operator treats only easy cases with minimal cost and transfers higher cost patients to other facilities. This is of course possible where the government operates some other facilities within the hospital network and also where the government makes periodic availability payments to private sector operators. In drawing up a contract for health sector PPPs it is important to ensure that the scope of operations of the private sector covers a network of hospitals instead of a single facility. This ensures that the private sector is compelled to follow the "cab rank rule" and treats every patient that walks through its doors. It is believed that the project can still be profitable for the private sector as its risk is spread out across the network and it may regain what it loses from one facility in other facilities.

*Technological Obsolescence:* Contracts should incorporate sufficient flexibility that allow for design revisions due to technology enhancement. This is in line with dynamic nature of health care delivery.

*Changing Demographics:* Changing demographics and disease patterns over the long run must also be incorporated in the planning of health sector PPPs. Constant and on going migration to cities are forever expanding due to the infrastructure and employment pull of the urban areas. Health facilities should be constructed with plans for considerable expansion particularly if it is in the urban/semi urban area.

*Stakeholder Opposition Risk:* It is not uncommon to hear that PPP projects failed due to opposition from stakeholders.<sup>2</sup> By its very nature, PPPs are very political and controversial primarily because they pursue the divesting of public control and the operation of public assets to a private sector operator. The citizenry usually do not take kindly to the divesting of "public treasures" in any way, whether through privatisation or PPPs. There is a need therefore to properly gauge the acceptance of the public for a project and find ways of mitigating any apprehension before the commencement of a project. It is for this reason that it is advocated that parties to a project must identify the risk that the public might be opposed to the project, evaluate it and allocate it appropriately. The public and private sector parties to the project must then commence a process of mitigating the risk by designing a stakeholder inclusion and consultation programme.

*Political Risk:* The exercise of political power is the root cause of political risk.<sup>3</sup> Political risk is a large amorphous category. It contains virtually all "risks associated with business or investment in a country which would not be present in another country with a more stable and developed business and economic climate and regulatory regime".<sup>4</sup> Some of the components of political risk are currency inconvertibility and transfer restriction, expropriation, breach of contract, political violence, legal, regulatory and bureaucratic risks and non-governmental action risks. Investors will avoid countries where there are high incidences of these factors. This is

<sup>1</sup> International Finance Corporation *ibid*

<sup>2</sup> Olander, S. and Landin, A. 'Evaluation of Stakeholder Influence in the Implementation of Construction Projects', (2005) 23 *International Journal of Project Management*, pp. 321-328

<sup>3</sup> Wagner, D. (2000) 'Defining Political Risk' (online) at: <http://www.irmi.com> (last accessed May 1, 2012)

<sup>4</sup> Hill, C.A. 'How Investors React to Political Risk', (1998) 8 *Duke Journal of Comparative and International Law* pp. 283-313

why it is said that political risks have an impact on a country's development.<sup>1</sup> Regarding health sector PPPs, it relates mostly to breach of contract as well as regulatory and bureaucratic risks and non-governmental action risks. The most effective means of mitigating political risk is by having predictable PPP laws and transparent procurement processes.

### 5. Regulating Health Sector PPPs in Nigeria

PPP as a concept is not particularly new in Nigeria. Indeed a number of transactions have been concluded over the years.<sup>2</sup> However the few successful projects involve sectors with independent technical and economic regulators like telecommunications, power and aviation sectors. This same institutional arrangement does not exist in the health sector, despite the fact that PPPs in this sector tends to throw up a number of issues demanding regulatory oversight during its operational phase. The most serious of these issues include the possibility that the private sector charge abnormally high service fees and alienates poor patients. On the other hand, fees for services and standards of operation must not be indiscriminately imposed or enforced. This may occur where the public sector organization (e.g. Ministry of health) not only operates its own hospitals within the network but is also asked to set rates and standards for services rendered by the private sector, which is effectively its competitor. Therefore, for greater efficiency and transparency, there must be uniformity in regulating the different service providers across the different networks.

There is of course the existence of the Infrastructure Concession Regulatory Commission (ICRC), which was created under the ICRC Act. The main function of the Commission is to take custody of every concession agreement or contract entered into by the Government Ministry or Agency, and monitor compliance with the ICRC Act and the efficient execution of any such Concession Agreements.<sup>3</sup> The Act seriously limits the efficacy of the Commission as a regulator. For instance despite the use of the word "regulation" in the title of the ICRC Act, the law does not confer regulatory powers on the ICRC. Under the ICRC Act, the institution is for instance, not enabled to perform much economic or technical regulation. The Commission also does not have express coercive powers. For health sector PPPs it is further limited by a lack of expertise in clinical services, hospital operation, medical equipment performance and medical technology. It would have to hire technical services providers at government's cost to perform regulatory functions.

One of the quickest ways of regulating PPPs in Nigeria at the moment is to craft very sensible policies that are backed with Federal Executive Council (FEC) approval. This is the method adopted by ICRC to ameliorate some of the limitations in its enabling legislation. Executive policy documents are "soft laws". This is because even though they are not by themselves passed directly as legislations in parliament, these regulations are administrative instruments passed under delegated powers from the legislature.<sup>4</sup> They are handy tools in the hands of the executive arm of Government as they can be deployed very quickly instead of going through the rigorous process of passing legislation in parliament.

Secondly, PPPs may also be regulated through the use of contracts. PPP contracts if well detailed can stipulate the obligations of the contracting parties and specify penalties to be imposed on a defaulting party. This is not easy as PPP contracts like most long term contracts are incomplete contracts. This is because it is practically impossible to anticipate every single possible scenario that may occur within the term of the contract and provide for it contractually. However regulating PPPs contractually is not impossible as it was successfully done, albeit with a lot of issues with the 26 port sector concessions that were carried out by Bureau of Public Enterprises (BPE.). The key to contract management is a good enforcement mechanism within the contract that encourages innovation and excellence by stipulating rewards for exceeding targets and discouraging inefficiency by penalizing it appropriately.

Thirdly the use of an independent Monitor may be employed. This model, which was adopted in the Lesotho National Referral Hospital project, may be used in conjunction with the contract regulation model discussed above. This independent monitor is jointly appointed by the government and the private sector to regulate the relationship between the parties. Under this model, the monitor which is typically a consortium of firms with expertise in the area of PPPs and different aspects of hospital management conducts periodic audits of the private

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<sup>1</sup> Sachs, T. and Tiong, R.L.K, 'The impact of political risk on public-private partnership (PPP) opportunities in Asia' (2007) No.20 Civil Engineering Research, ISSN: 0219-0370 pp. 20-23 Also Available (online) at: <http://www2.ntu.edu.sg/ResearchPaper/ODR/2006/Impact%20of%20political%20risk%20on%20PPPs%20-%20CEE.pdf>. (last accessed on August 11, 2013).

<sup>2</sup> For instance, the MMA 2 Airport, concession of 26 federal ports and the Lekki toll road projects were all consummated as PPPs.

<sup>3</sup> SS. 14, 15, 16 and 17 of the ICRC Act

<sup>4</sup> Most legislations give powers to the executive arm of government to make regulations to give efficacy to the primary legislative instrument. The only limitation is that the power exercised in making the regulation must derive from and also not exceed the scope of authority granted by the legislature. Also the scope of the regulation must relate to or be ancillary to the primary legislation.

sector operator's performance against contractually agreed performance indicators. The monitor then stipulates appropriate penalties for failure to meet the contractually agreed indicators. It is important to note that this option may likely increase operational expenses and therefore the overall cost of the project as the monitor is paid out of the project.

## 6. Case studies

Below are some examples of healthcare PPP projects that have been completed in some African countries. It is believed that since these countries share the same socio economic conditions with Nigeria, they present rich cases from which Nigeria can learn valuable lessons:

### *Inkosi Albert Luthuli Central Hospital PPP, South Africa*

The project is a 15-year concession of the existing government funded 846-bed referral hospital located in Durban South Africa. The hospital itself is the main tertiary hospital in the Kwazulu Natal Province, which comprises outpatient, in-patient, day care, high care, intensive care and trauma facilities. Due to paucity of funds, the government had to engage the private sector to fund the provision and management of medical equipment and the IT requirements of the hospital for a 15-year concession period. The project was financed with a 70:30 debt to equity split. The government contributed 10% of the project cost while the SPV contributed the remaining 20% of the equity. The debt was in the form of a RND 300m 7-year loan from the Rand Merchant Bank and a 15-year EUR 220m currency swap facility. As part of the funding structure the RND was hedged against the USD at RND 13/ US \$1 to mitigate government's foreign exchange exposure. This exposure related to the future purchase of Medical Equipment, priced in United States dollars. It was felt that private sector hedging would not deliver value for money and the government therefore decided to retain the risk.

The Inkosi Albert Luthuli project was the first PPP health sector transaction in South Africa. However despite its evident success a number of issues have emerged: The Hospital is perceived to be state of the art and very expensive. The Government is now questioning whether this is appropriate to South African health needs. The hospital is running at 60% capacity but the provincial government is paying for full capacity. Reasons for this include an inefficient referrals system (the Albert Luthuli is a tertiary facility) and the location; it is not close to any other regional and district hospitals. These issues illustrate the need for the public sector to conduct detailed feasibility studies before commencing on projects, as a proper needs assessment could have been done before commencing the project.

### *National Referral Hospital Lesotho:*

This is a 425-bed hospital launched in 2006 and which became operational in 2010 through a Design Build Operate Transfer (DBOT) scheme. In addition to this referral hospital, the project also included an adjacent gateway clinic and the renovation of 3 strategic fitter clinics. The reason for this is to allow for less serious cases to be dealt within the clinics and prevent the clustering of the main hospital with less serious cases. Other non-core activities in the hospital like catering, laundry and accommodation of staff were outsourced. The private sector consortium was selected through a competitive process to build, operate, manage, and deliver clinical and non-clinical services for 18 years. The project has an overall capital value of over \$100 million. Capital expenditures (for the construction and equipping of the hospital and gateway, and the renovation of the three filter clinics) were jointly financed with public (38%) and private funds (62%). The government contributed 400 million Maloti (M), while private capital was largely funded through a loan of M800 million from the Development Bank of South Africa (DBSA).

Government contracted to pay on going unitary payments that would be sufficient to repay the loan and to finance annual operating expenses of the hospital, which includes staffing, medicine, general expenses, preventive maintenance, ambulances, and management services. Certain services are excluded from the PPP contract, including chemotherapy and radiotherapy.<sup>1</sup> The volume of the unitary fees paid by the government is however threatening to derail the project. The unitary fee covers a minimum number of patients but also has a ceiling volume of patients. If the maximum volume is exceeded, the private sector can charge additional value for each patient treated. The problem is that this amount of money spent yearly represents about 41% of the total health care budget of the country, leaving other health care needs of the country unaccounted for. The lesson here is the proper upfront identification and management of contingent liabilities. Government must understand the full scale of its on going obligations before starting PPP projects.

### *Alexandria Hospital, Egypt:*

IFC advised the Egyptian Government on the two Alexandria University hospitals under a Design, Build, Finance, Operate, Manage (DBFOM) scheme. Under this structure, the 2 hospitals (Smouh 200 bed) and Mowassat (224 bed hospitals) will be concessioned to a private sector consortium comprising Bereq Capital, Detec, G4s and Siemens for 20 years after which the management of the hospital will revert back to the government.<sup>2</sup> The private

<sup>1</sup> Boston University, *Endline Study for Queen 'Mamohato Hospital Public Private Partnership (PPP) found @ [http://www.circ.in/pdf/ER\\_Case\\_Study\\_13.pdf](http://www.circ.in/pdf/ER_Case_Study_13.pdf)* (last accessed on 25th of September 2014).

<sup>2</sup> International Finance Corporation Supra

sector is also required to supply medical equipment and maintain the hospital facilities during the concession period. The project is so far trumpeted as a success having attained financial close. The obvious lesson for Nigeria here is that even existing and greenfield teaching hospitals can be consummated through PPPs if the political will is present.

### 7. Conclusion – the way forward

This paper has reviewed the state of healthcare infrastructure in Nigeria and concluded that its poor state is as a result of the paucity of government funds. It therefore considered PPP as a viable alternative to government budgetary financing. It concludes that PPPs are feasible for the health sector if certain enabling factors are put in place and the risks that are likely to eventuate during the long project cycle identified, allocated and properly mitigated. Finally through a minor case study review, examples of different health sector projects that have been successfully completed as PPPs were considered and important lessons for Nigeria identified from them.

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