Public Private Partnerships (PPPs) for Health Sector Reform in Nepal

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Introduction

The logic of periodic national planning in the Nepalese context means to improve livelihoods of the poor. It is only possible through attainment of sectoral objectives and integration of these with other parts to create synergies. Good health of the nation depends on the good health of the citizens, the most important assets to improving livelihoods. As the need for essential healthcare delivery is increasing the meager resources with the public sector are major constraints to improve its coverage and quality. In addition, decentralization of the services is essential to improve the access of the services across the length and breadth of the country.

In order for improving access to and quality of healthcare the need for private expertise and resources to complement public sector endeavors is never more urgent than it is today. Amongst the various schools of thoughts towards this end, public private partnerships (PPPs) are best suited to address the need as well as initiating the reform in the public sector for becoming efficient, result oriented and effective in service delivery.

PPPs are relations that develop and grow or fail just like the relations between people. Therefore, both the public and private sectors need change in attitude in seeing each other in development cooperation while focusing to achieve respective as well shared and compatible objectives through building sound partnerships. The lessons learned at national as well as international level may be helpful in developing the best case examples of PPPs for healthcare delivery in Nepal.

Background

In the last 48 years of development planning exercise in Nepal since 1956, a number of development tools that vary in scale and scope have been in practiced. However, even at the end of the Ninth plan (1997-2002), the poverty in Nepal is estimated at 38%. Over 23 million population at present is growing at about 2.25 % per annum adding the absolute number of poor people each year. The Poverty Reduction Strategy Paper, Tenth Plan (2002-2007) has estimated a rise of 3.5 million poor people in between 1976 to 1996.

Poverty levels can be measured more broadly in terms of access to basic social and economic infrastructure, which help improve the quality of life at various levels of income. Apart from education access to healthcare and safe drinking water etc. contribute to improved living standards and life expectancy. Though Nepal has made significant progress in terms of such human development indicators over the years, there is a stark difference between the ecological, regional and rural urban divide.

Table 1: Human development index, Nepal, 2000

Ecological zone	HDI	Development region	HDI	Urban/rural	HDI
Mountain	0.378	Eastern	0.484	Urban	0.616
Hill	0.51	Central	0.493	Rural	0.446
Terai	0.474	Western	0.479	Nepal	0.466
		Mid-western	0.402		
		Far-western	0.385		

Source: PRSP, Tenth plan (2002-2007)

Above table indicates that improving access to basic services including essential healthcare is the challenge Nepal facing today.

Nepal Health Sector Implementation Plan (NHSP-IP)

Sound economic health of the nation greatly relies upon the sound health of its people, which should be ensured through equitable and high quality health services to all. In order to achieve this broad objective, the traditional approach to healthcare delivery is a major constraint. Therefore, it necessitated formulation of Health Sector Strategy: An Agenda for Change (Reform). Nepal Health Sector Implementation Plan (NHSP-IP) 2003-2007 has clearly identified eight outputs to health sector

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reform including three program outputs and five sector management outputs. Key consideration in achieving these outputs can be summarized as:

- Providing essential healthcare services in an inclusive approach
- Decentralization of health services thus the Ministry of Health (MoH) for improving the access to and coverage of healthcare delivery
- Recognition of the role of private sector in assuming some functions of healthcare delivery and forming public private partnerships for efficient and effective healthcare delivery

Decentralization in Nepal with respect to Healthcare Delivery

Local Self-Governance Act (LSGA) and relevant Regulations 1999 has empowered the local bodies in managing the local resources for local development. The Act also obligated local bodies to provide essential services to the constituents. At present, there are 75 District Development Committees, 58 Municipalities (including one Metropolis and four Sub Metropolitan Cities) and 3913 Village Development Committees. Preamble of LSGA states that it is expedient to: *"Make provisions conducive to the enjoyment of the fruits of democracy through the utmost participation of sovereign people in the process of governance by way of decentralization".*

The provisions of LSGA, 28 (g), 96 (g) and 189 (n) for VDC, municipality and DDC respectively clearly state that operating and managing health services, among others, within their territory falls under the functions, duties and power of the local bodies. However, it is still in transition in many respects because in the most cases the duties and power given to these local bodies do not match their managerial and technical capabilities to undertake various functions. Therefore, decentralization of healthcare services faces the challenge of building local capacity to undertake various functions (facilitation, implementation, and regulation) related to healthcare delivery in an inclusive and rights- based approach.

According to NHSP-IP 2003-2007, decentralization of Sub Health Posts (SHPs) to Village Development Health Management Committees has already begun in 2002 and a decision has been taken to form a Local health Facility Operation and Management Committee to run the Sub Health Posts (SHP). Once the health facility assume the full ownership of the local level management, the committees will design benefit packages, prioritize their essential healthcare services and financing mechanism with technical backstopping and information updates from District Public Health Offices (DPHOs). In addition, the decentralization of the health services has also begun through giving autonomy to Hospital Development Boards, currently formed in 12 district hospitals.

While decentralization is the key to create synergies through integration of efforts bottom up, it needs adequate resources to address various issues of health services at local level. The LSGA 1999 considers local bodies as autonomous corporate bodies and emphasizes the private sector's involvement in local governance by incorporating *"encouraging the private sector to participate in Local Self Governance in the task of providing basic services for sustainable development"* as one of the six basic principles and policies of Local Self Governance.

Forming public private partnerships (PPPs) within the ambit of LSGA can generate off budget resources for healthcare delivery at local level. However, public private partnerships aimed at generating private financial resources only will tend to be profit driven thus exclude the poor from access to services. Building capacity of the stakeholders at local level to form pro-poor PPP should be a major consideration to form public private partnerships for essential health services.

Public Private partnership (PPP)

Partnership is characterized by two or more parties working towards achieving shared and/or compatible objectives in which the parties:

- Share authority and responsibility
- Invest time and resources
- Share risks and benefits and
- Enter into an explicit agreement or contract that sets out terms

Partnership differs from participation or consultation because it has the qualities of relationship. While participation and consultation may not be legally binding the partnerships are. In the legal term a partnership means that the parties to the partnership are bound by the acts of partners and also liable for partnership debts, on the basis that what one partner does is done as an agent for the other.

The term public private partnership (PPP) is used in various ways in different context. Quite often it implies private investment and transfer of risk to private sector in providing public services or building infrastructure. However, this term should be used in the concept of partnership that is aimed at building capacity to govern, generating private resources (human and financial) to compliment public resources, effective and efficient delivery of public services and initiating reform in the public sector in a transparent, accountable and result oriented manner. While the public and private

sectors are the principal parties to partnership for delivering public services, it necessitates involvement of civil society that lies in the center of all the partnership initiatives. It is also termed as Tri-Sector Partnership (TSP).

Rationale for Public private partnerships (PPPs) for healthcare delivery

Healthcare provision in Nepal can be characterized by four key challenges:

- Large numbers of people have little or no access to healthcare
- Current resources are poorly targeted and inefficiently deployed
- Increases in the variety and impacts of infectious and non infectious diseases
- Increase in risk of emerging and reemerging diseases

As per the National Health Account 1994/95, the total expenditure on health was about 5.3% of GDP. My personal observation of healthcare provisions across Nepal and the fact supported by the HDI of different ecological zones, development regions and rural and urban Nepal (refer table 1), it reveals that (though healthcare is not the only parameter for assessing HDI) the large portion of healthcare spending is targeted in urban areas and towards larger hospital facilities, leaving a large number of people lacking basis health services. So the urban population specifically in Kathmandu and/or that is easily accessible from Kathmandu benefits most from it. Primary healthcare infrastructure aimed at preventive care and broader public health initiatives could potentially have a huge impact on the general health of a population and avoid unnecessary use of more expensive curative care. Though there is thinly located infrastructure within Nepal it suffers from lack of resources to maintain quality standards and continue to expand services.

In Nepal, the health services by the public sector like the delivery of other public service are provided in traditional and inefficient manner that limit the optimum use of available resources. The expertise to manage resources is lacking. For example, in the most cases, clinicians trained for different role are required to manage complex hospital services without adequate training in health management. The meager funds of public sector often get overstretched to meet the urgent short term needs thus maintenance of infrastructure suffers. Despite the best efforts, poor infrastructure makes quality healthcare difficult.

Public private partnerships (PPP) are very important means of collaboration between the public and private sector to pool resources, expertise and skills for effective and efficient delivery of public services. The scale and scope of healthcare delivery entails an approach that mobilizes expertise, resources and efficiencies from both private and public sectors. While the public sector plays a vital strategic role (developing policy and coordination), the private sector can be mobilized in a variety of creative ways to meet investment and operational needs. By doing so the public sector can free a sizeable amount of resources that can be utilized in other areas of healthcare where private sector may not be interested.

Cost recovery measures through user fee or the government subsidy forms the basis for public private partnerships, because private investment depends on the financial sustainability. The most common bias against private sector is that it is profit oriented, therefore not suitable for partnering for providing healthcare that has public good (benefits of which extend beyond who pays for it) characteristics. However, not all the health services have public good characteristics (e.g. specialized high-tech treatment facilities). On the contrary, efficient modern management practices substantially reduce the overhead cost of running a facility. Inefficiently deployed resources and lack of result orientation in the public sector cost more, if true cost of service by the public sector in terms of resources spent, facilities provided and output received calculated, than what would cost through the introduction of private management. In addition, efficient and effectiveness of service delivery provides incentive to pay for the services.

Getting Started: Public Private Partnership Models and Options

Public private partnership (PPP) is a paradigm shift. At present, dealing with prevailing attitudes within and out of the public sector is the major challenge. While the public sector tends to be too protective or restrictive, the private sector lacks social responsibility in its operation. There is a crisis of confidence among both the sectors. In order to form pro-poor public private partnerships for healthcare delivery, both the public and private sector should be able to see each other in equal footing in the development cooperation.

Changing attitudes is hard to avail. Health service managers both in the public and private sector are better familiar with this challenge. To expedite the attitudinal changes in both the public and private sector, an approach similar to that of behavior change communication (e.g. social marketing to change the attitudes of the general public to accept means of controlling births by using protective measures), would be required. However, the methods will vary considerably in approach and expertise. Given the diversity of healthcare services

and expertise required, it entails incentive packages as well as the coercive measures. Underlying fact is that it must be an agenda at the top of political and bureaucratic decision making authority.

There are various models of public private partnerships. Application of each model depends on the need of partnering. Developing a suitable model is vital. In order to initiate public private partnerships to bring the tangible outputs as envisioned in the Nepal Health Sector Program Implementation Plan (NHSP- IP) there is an immediate possibility of forming the public private partnership.

To develop or renew infrastructure

PPP models such as design, build, operate, lease, concession can be used for developing the hospital facilities. Initially the hospital services such as laundry, catering, cleaning and maintenance can be provided by the private sector while clinical care services provided by the public sector. A key advantage of this model is that public sector can transfer risk of maintaining the hospital facilities ensuring quality of assets in the long term. With increase in capacity of the public sector to form public private partnerships. the private involvement can be extended to clinical care in customized packages.

To improve the coverage of clinical services

Service contracts or management contracts can be utilized to bring in the efficiency of private sector and improving the coverage of clinical services in the country. The important consideration in these types is the payment mechanism, which is critical in determining the equity and financial sustainability. A private provider can be contracted to provide agreed services for a fixed contract period with or with out volume cap. The private provider takes the risk of deficit but allowed to keep the surplus. Alternatively, public sector can arrange for reimbursement to private provider for the actual care provided.

An overview of PPP options and benefits

PPP option	Role of public partner	Role of private partner	Key benefits to public sector
Outsourcing non clinical services	Monitor performance	Assume provider role to the agreed standards	Cost saving in implementation through transfer of risk of maintenance and liabilities of the unskilled or semi-skilled workers
Outsourcing clinical services	Monitor performance and provide management support	Invest in infrastructure and its maintenance	Access to service without significant investment
Outsourcing (Leasing) specialized clinical services	Provide facilities for private use	Provide specialized services	Enhancement in revenue through optimum use of available resources
Private management of public facilities	Monitor performance and contract compliance	Manage entire affairs of hospitals	Efficient and effective services to the public
Design, build, finance and leaseback	Monitor compliance, pays to private partner in phased installments	Invest and build facility	Faster project delivery More project delivery

External development partners (EDPs) including international non governmental organizations (INGOs) have been instrumental in providing healthcare services in Nepal. According to NHSP-IP, the contribution of EDPs including INGOs is almost equal to that of public sector health expenditure in Nepal. However, duplication of services in some areas and non existence of essential healthcare in others is a rising concern. Traditionally, the INGOs are working on the basis of understandings with public sector than assuming contractual obligation to provide health services.

In order to bring about the tangible outputs of health reform in Nepal, the formalization of contractual arrangements with this sector is vital. Unlike the private sector, non governmental organizations (NGOs) are more adept in working in remote areas as well as have good understanding of service needs of the civil society, specifically the vulnerable group. Therefore, effective utilization of their strength in reforming health services and forming public private partnership with their active role is vital for accessible and equitable healthcare to all.

Present Environment for PPPs in Nepal

At present, various programs under the Ministry of Local Development with assistance from United Nations Development Program (UNDP) have been

promoting public private partnerships (PPPs), among others, at local levels. These include:

- Public Private Partnership in Urban Environment (PPPUE)- in 5 municipalities
- Rural Urban Partnership Program (RUPP)- in 26 municipalities
- Local Governance Program (LGP)- 60 districts

While RUPP and LGP have been promoting PPP activities and projects as a component of the strengthening of local governance and decentralization, PPPUE is solely dedicated to promoting public private partnerships (PPPs). However, at this stage of the first phase of the program, activities are channeled towards awareness and capacity building amongst the stakeholders at local level and supporting policy development at central level. Recently, with support from PPPUE, His Majesty's Government has developed a "Public Private Partnership Policy" for local bodies (2004). In addition, Build Operate Transfer Policy 2000 (BS 2057) and an ordinance in August 2003 (BS 2060) for "Private Investment for Construction & Operation of Public Infrastructure" facilitate PPP for larger projects at central level.

Public private partnerships (PPPs) are gradually taking root in Nepal. Both at the central level and the local bodies are adopting this approach for delivering various public services. Of these, solid waste management, general sanitation and safe drinking water supply are directly related to health sector. Among the PPP practicing public enterprises at the central level, Nepal Electricity Authority can be taken for example. Similarly, by utilizing the authority and power given by the Local Self-Governance Act 1999, a number of municipalities including Kathmandu Metropolis, Pokhara and Biratnagar Sub Metropolis, Butwal, Bharatpur and Hetauda municipalities have already formed public private partnerships to provide various public services including solid waste management, sanitation and water supply.

The most important lesson learned from the partnership arrangement in Nepal so far is that the public sector in question needs to have sufficient skills and capacity to deal effectively with the private sector/partner. Creating interest of private sector and maintaining the same in the long run is vital. Badly structured contracts have resulted in the opposite effects to those intended. General tendency in adoption of PPP approach is guided by mere financial risk transfer. In the most cases, social, environmental and institutional objectives have been ignored. Therefore, the public sector must be equipped with the knowledge to extract maximum benefits from these arrangements. The areas in which expertise required include: PPP in general, project design, procurement of services, negotiation and performance monitoring.

Recommendations

- While public private partnership can be a very important tool to reform health sector in Nepal, it requires highest level of political commitment and understanding how they can be implemented in given socioeconomic conditions. Structural barriers need to be removed. The traditional client contractor approach of working with private sector has to be changed to see the private sector in equal footing. Development of sectoral PPP policy and clearly defined guidelines to partnership building is vital for transparency and fairness in procurement of private services through PPPs.
- Health sector managers should take advantage of various PPP models used for delivery of various public services and in health specifically. Site visits and consultation with private sector and close collaboration with the Ministry of local Development will help significantly. Expert advice should be sought in order to have best chance of selecting the right approach and implementing it effectively within the available regulatory framework. Initially, some piloting is necessary to learn lessons. In order to make PPPs a reality in healthcare, simple models should be chosen first.
- Public private partnerships are dynamic relationships. New variables will need to be addressed as PPPs expand. In addition to the various dimensions of PPPs, the stakeholders should have clear understanding of the benefits and risks of PPPs. Risks should be eliminated as far as possible or managed but not avoided. Therefore, capacity development of the public, private and civil society sectors is vital and should be a continuous process.

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