PSP4H PRIVATE SECTOR Innovation Programme For Health

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What Prevents Kenya's Counties from Implementing Public-Private Partnerships in Health?

The Private Sector Innovation Programme for Health (PSP4H) is an action research project designed to explore a new area for DFID Kenya, namely the markets in which poor people pay for-profit providers for healthcare. The overall objective of the PSP4H programme is to learn lessons of how a market systems approach might benefit pro-poor health interventions.

Extending the programme's scope, DFID's 2014 Annual Review recommended that PSP4H "Establish partnership with at least one county government to develop a viable and replicable public private partnership (PPP) approach which delivers value for the poor."

POLICY NOTE SERIES # 18

Background

In fulfilment of this recommendation, in early 2015 PSP4H began an "early adopters" working group with eleven counties to help county health management teams understand, design and implement a workable approach to private sector engagement and PPPs. The initial objective pointed at implementing at least one "quick win" PPP in each participating county by the end of the year. However, a series of obstacles surfaced which underscored why PPPs have been slow to emerge at the county level despite considerable external assistance. This brief outlines some of these key issues as identified in dialogue with members of the early adopters group. These issues must be addressed and overcome in order to accomplish widespread adoption of PPPs at the county level.

This brief does not purport to offer full evidence of incidence or priority of these issues across the entire nation; it is intended to underscore issues which hamper PPP progress as observed from those responsible for their implementation. The fishbone diagram below maps ten issues that are at the root of why counties are not rapidly implementing PPPs in health; discussion follows.

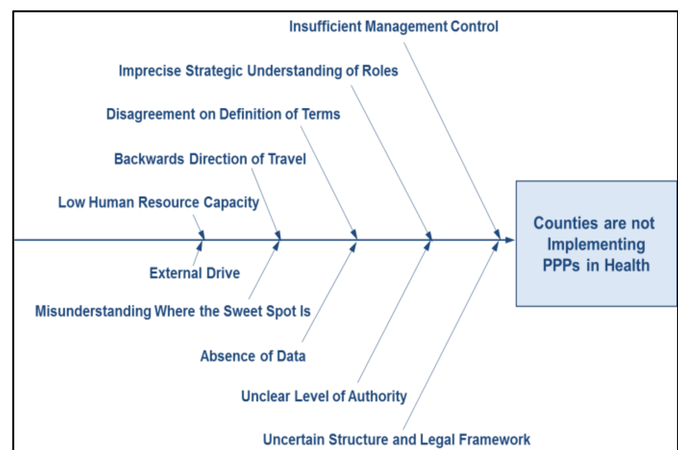

Figure 1: Fishbone Diagram – Issues in Developing County-Level PPPs in Health

Insufficient Management Control

The Constitution of Kenya 2010 devolved delivery of healthcare services to the county level. County responsibility covers three levels of care: community health services, primary care services and county referral services (KPMG 2013). A health management team led by the County Health Executive (*aka* CEC Health or County Health Minister) guides each county health department.

At present, County Health Executives and their management teams consist primarily of trained clinicians, the majority of whom built their careers in the public health service prior to devolution. The Kenyan medical training curriculum does not include any coursework in economics or business whatsoever, whereas PPPs are business arrangements that require a sophisticated understanding of finance, contracts and commercial negotiations. A mismatch exists between the skill set necessary to manage PPPs – a business skill set best developed through earning an MBA degree – and the skill set actually held by county health leadership, who most often hold MD degrees. Despite some attempts to build capacity, the level of management control wielded by county health leadership over PPPs is far from optimal.

Imprecise Strategic Understanding of Roles

A clear understanding of the role PPPs play in fulfilling overall county health objectives is a prerequisite for the aforesaid management control. Replicable PPPs cannot be constructed on an *ad-hoc* basis; they must fit squarely within the county's strategic plan, known as the County Integrated Development Plan (CIDP). Whereas most counties have strategic plans, unfortunately they are seldom the visionary documents that make this fit crystal clear. A solid understanding that healthcare is an ecosystem consisting of both public and private (commercial, NGO and FBO) players seldom exists, whereas in actuality all of these players cohabit and all are necessary for the system to function.

Distrust between public and private sectors lingers, some of it driven by public experience with overly opportunistic private sector players who can take moral hazard to an extreme (colloquially termed "sharks and vultures"). County Health Executives and their teams need to fully grasp that they are in control of the PPP process and that PPPs must start from the point of serving the county's strategic objectives. PPPs must fit squarely within the county's health strategy, contribute towards bringing health services the public sector cannot provide on its own population and bring better value to services currently provided.

Disagreement on Definition of Terms

There is no uniform understanding among all the players of what constitutes a PPP. An oft-cited source describes three different "tribes" that hold different definitions of public private partnership (Harding 2012), essentially (in order of complexity):

1. Dialogue and informal arrangements
2. Service and management contracts
3. Investments

If financiers, economists and business experts cannot agree on what a PPP is and what it is not, how can County Health Executives with clinical backgrounds be expected to understand? Various constituencies advocating their preferred definition exacerbate the problem and confuse things even more. As a common definition of terms forms the foundation of any agreement, this is a serious problem.

A common perception among county health leadership is that unless an investment is involved, the arrangement is not a PPP. The offshoot of this is a recurrent desire for complex, investment-heavy, asset-heavy long term PPPs usually involving equipment or facilities, when the county actually has scant experience managing basic private sector

engagement at the present time. In the Kenyan public healthcare sector, outsourcing and service contracts are still in their relative infancy. It is a huge leap to go from no private sector engagement at all to large-scale, long-term investments in one step; these will require extensive – and expensive – outside expertise and advisory.

Backwards Direction of Travel

Many, if not most, of the healthcare PPPs initiated during the early years of devolution have been unsolicited proposals brought by the private sector to the counties. An unsolicited proposal is one submitted at the initiative of a private firm rather than in response to a request from the government. These offer new services and sophisticated technologies attractive to often overwhelmed county health systems.

The problem is that the direction of travel is backwards. PPPs must be initiated by county governments in order to meet their strategic objectives and fit their budgets, then fulfilled through private sector involvement. Here is where county leadership's grasp of management control is essential. This aphorism "if something looks too good to be true, it probably is" applies well to county-level PPPs. A reverse direction of travel for PPPs opens up the door to sweetheart deals and perverse incentives which do not necessarily serve the county's overall best interests.

An open and transparent tendering process for PPPs initiated by the county government circumvents this problem. Counties must learn to reject unsolicited proposals, no matter how attractive, particularly when not aligned with the agreed strategy.

Low Human Resource Capacity

Even if counties overcome the management problems relating to strategic control and definition of terms, few county health departments currently boast the human capacity required to implement PPPs. Each of the 47 county health departments now requires in-house experts on the technical, legal and financial aspects of PPPs, at minimum. These are complex functions; capacity that does not exist must either be developed locally or acquired, with significant investment of both money and time. A capable team must be on the ground in each and every county to execute PPP work. This is a tall order given widely divergent states of preparedness and varying healthcare budgets across Kenya's 47 counties.

Uncertain Structure and Legal Framework

The legal framework underpinning PPPs at the county level is not widely understood by those responsible for implementation. The Public Private Partnerships Act No. 15 of 2013 sets the basic framework, yet it is a general framework not specific to health. A PPP Unit established within the National Treasury has the mandate of assessing and approving PPP projects in the country, across all functions ranging from roads to ports to power to health. At the time of writing this brief, PPP regulations which guide implementation at the county level were in draft stage. The national Ministry of Health (MOH) retains oversight functions relating to PPPs in health, its own embedded PPP node ensuring compliance with national health policy.

Each County must set up and staff a general county PPP node to serve as the umbrella organisation under which the county health PPP project appraisal team falls. County health departments cannot operate a PPP node until after the overall county organisation is set up and functional. Although PPPs are mentioned in county health strategic plans, not all counties have established the basic structure to house health PPPs.

As the draft county PPP regulations have not yet been finalized nor adopted, counties have no certainty as to the ultimate acceptability of proposed PPPs. It is clear in the draft, however, that county government projects with capital expenditure of less than five million shillings shall be exempt from the national PPP regulations; hence many PPPs at the county

level involving service and management contracts may be implemented without Treasury's approval. Quick win PPPs primarily fall into this category.

Unclear Level of Authority

Enthusiasm for implementing PPPs among county health management team members may not be matched by the authority to execute. Members of county health management teams who show great enthusiasm for PPPs frequently cannot follow through because of the need for approvals from higher levels of leadership such as the County Health Minister or Governor, who may not yet have mastered the subject. Experience shows PPPs that move forward swiftly have support and buy-in from the highest levels of county leadership.

Absence of Data

In order to decide if a proposed PPP creates a financial benefit, the county requires accurate, up-to-date financial and patient utilization data as a baseline. For example, to consider the potential benefit of a PPP that outsources ambulance transport to a private service provider, the county must at least know its current asset values, operating costs, utilization rates and cost recovery rates. This data may not be readily available or may not be available at all. Cost-benefit analysis will not be possible if data does not exist.

External Drive

Public-private partnerships are somewhat the "flavour of the day"; the PPP agenda has been pushed by various international agencies as a panacea to numerous ills of the public sector. Public sector officials who do not get on the PPP bandwagon are viewed as "old school"; PPPs are the thing to do – just look at all the other African countries like Lesotho, South Africa and Tanzania that have PPPs – Kenya is far behind.

In many cases PPPs have been driven by external agendas (top down) rather than motivated by independent strategic analysis of need (bottom up). Without the motivation that comes with full ownership, externally-driven PPPs could be little more than vehicles to use donor support with no sustainability in mind.

Misunderstanding Where the Sweet Spot Is

A corollary to the perception that a PPP is only a PPP when infrastructure or highly specialised medical equipment are involved is the desire for asset-heavy PPPs, such as construction and equipping new hospitals and clinics. A study by consultancy PwC (Da Rita 2012) underscores the fault in this approach by showing potential for savings and efficiency gains of only 2 – 5% in infrastructure PPPs as opposed to 30 – 45% in hospital operations and non-clinical services. In the Kenyan public health system where wastage levels of up to 50 – 60% have been identified in public hospitals (Kimuu and Soti 2014), there are huge opportunities for efficiency gains through outsourcing basic services such as maintenance, transport, waste disposal, security and catering to the private sector. These types of contractual arrangements are inherently simpler to manage than investments and mostly fall below the threshold requiring National Treasury approval, but they are seldom the focus of current county PPP initiatives.

A Viable and Replicable Approach

Solutions to these issues will lead to a quicker pace of healthcare PPP implementation at the county level. A viable and replicable approach leading to PPP engagement follows deliberate steps:

1. Clearly understand what constitutes a PPP as well as the county government's overall strategy, priority needs and management control;
2. Set up the appropriate structure and gain leadership buy-in;
3. Start simple. Look at management and service contracts before delving into investments;

4. Consider PPPs in non-clinical (i.e. non-core) areas first for quick wins and rapid efficiency gains (which will have the side effect of focusing internal resources on core clinical areas).

PSP4H is fostering this approach through the early adopters group so counties can gain positive experience with private sector engagement and adopt PPPs as a mainstream vehicle to optimize healthcare delivery across Kenya.

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Implemented by Cardno in partnership with Insight Health Advisors, Oxford Policy Management and Mannion Daniels.

Private Sector Innovation Programme for Health (PSP4H). 2015. *What Prevents Kenya's Counties from Implementing Public-Private Partnerships in Health? Series No. 18.* Nairobi: PSP4H.