

*This series provides an overview of successful public-private partnerships in various infrastructure sectors, where IFC was the lead advisor.*

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**Health Sector**



## Lesotho: National Referral Hospital

Lesotho is replacing its main public hospital with a new 425-bed facility that is supported by a network of refurbished urban clinics. All the facilities will be designed, built, financed, and operated under a public private partnership (PPP) arrangement that will also include clinical services. The new hospital will deliver greatly improved, high-quality, publicly funded health care services and will serve as the main clinical training facility for all health professionals. The PPP project structure is a first for the health sector in Africa.

The Tsepong consortium, headed by Netcare and comprising significant local ownership, won the bid for the project. Tsepong will design, construct, partially finance, and operate the new hospital and three urban clinics under an 18-year PPP agreement. The project will cost approximately US\$100 million and will be financed through a combination of commercial financing by the Development Bank of Southern Africa, a government contribution, and private equity.

The project was supported by technical assistance funds from the governments of the Netherlands and Sweden and has been awarded a grant of US\$6.25 million from the Global Partnership for Output Based Aid that will be used for the initial delivery of services at the new facilities

## BACKGROUND

Lesotho is a small, mountainous country of 2 million people in southern Africa. Its revenues come primarily from water exports to South Africa, agriculture, and garment manufacture. The country faces serious challenges in the health sector. The nation's main hospital, Queen Elizabeth II, is an aging facility that is functioning at a minimal level and urgently needs to be replaced. It is also consuming increasing government resources while services continue to decline.

Furthermore, Lesotho faces a shortage of trained health care professionals. The new hospital will help the country retain and attract doctors and nurses by providing improved working conditions and professional development programs.

## IFC'S ROLE

IFC advised the government on the feasibility, structuring, tendering, and implementation of the PPP. It worked closely with the government to bolster its understanding of PPPs, build its implementation capacity, and help it garner political support.

The IFC team undertook extensive due diligence and project feasibility work, and marketed the project locally, regionally, and internationally. IFC also commissioned a baseline study that documented the existing poor services and facilities, providing important data that allowed the government to make some simple, but effective, changes at the current hospital that could improve services in the interim before the new hospital is completed. The study also gave potential bidders realistic operating data they could use when preparing their bids. Finally, the team developed the bidding documents and PPP agreement and helped the government with the tender process.

IFC will continue to advise the government for an additional 12 months during the early stage of implementation.

## TRANSACTION STRUCTURE

The government wanted a new hospital that it could afford given its limited budget, but also needed to be sure that the same problems that the existing hospital faces—insufficient staff, maintenance, and supplies—would not be perpetuated. It also wanted the new hospital to have a lasting effect on local economic development.

To address the above, consortia were required to include specific targets for local participation in the project's equity, management, subcontracting, and community development as part of their bids. These targets, along with stated increases over the life of the contract, were incorporated in the final PPP agreement as contractual obligations.

Performance monitoring will also be comprehensive and employ a system designed by IFC that goes beyond what most health PPPs use. Performance will be monitored quarterly by an independent monitor jointly appointed by the government and the private operator and where it does not meet the required standards,

predetermined penalties will come into effect. Furthermore, the private operator will be required to obtain and maintain accreditation from the Council for Health Services Accreditation of Southern Africa. Failure to obtain and maintain this accreditation can result in termination of the agreement.

The project also includes the Joint Services Committee, established by the government and the private operator, to review performance and to develop mechanisms, procedures, and protocols that will improve services at the hospital and clinics.

## BIDDING

Bidders were asked to submit their bids within minimum volume, service, and budget parameters to provide the government with a clear idea of what was possible within the range of affordability. Bids included a markup of the draft PPP agreement and bidders were scored on their technical proposals and then on their financial bids. Fourteen companies participated in the investors' conference and two companies submitted bids. A preferred bidder was selected for negotiations, which concluded with the signing of the final PPP agreement.

## POST-TENDER RESULTS

- Construction started in March 2009, clinic services are scheduled to begin in late 2009, and the new hospital is to open in mid-2011.
- Tsepong will provide 65 percent of the financing through the Development Bank of Southern Africa and equity investors
- IFC's baseline study of the current hospital identified that Lesotho has one of the world's highest cervical cancer rates. No prevention or treatment programs were being provided and referrals to South Africa were too late to be effective. As a result, the government and the Lesotho-Boston University Health Alliance designed a pilot program. This program, supported in part by the Merck Vaccines Gardasil Access Program, began operation in February 2009 and will provide services to 25 percent of the women in Lesotho in the first year of operation. If the program is expanded across the country, it is expected to reduce the rate of cervical cancer by more than 90 percent within 10 years.