

# MANAGEMENT CONTRACT OF PUBLIC HOSPITALS



This Private Sector Brief examines management contracts of public hospitals, which are a type of public-private partnership (PPP), whereby the government contracts with a private organization to manage the provision of publicly funded health services in a public facility.

## I. THE RWANDAN CONTEXT: MANAGEMENT CONTRACTS

Rwanda's Ministry of Health is exploring and pursuing ideas and opportunities to strengthen district hospitals by bringing a private-sector mindset to management and operations. Management contracts are one potential opportunity.

Rwanda's government has signed a new law that formalizes the development of PPPs. The law defines four types of PPPs: build-operate-transfer, build-operate-own, lease-operate-develop, and management contract.<sup>1</sup> The law defines the latter as an agreement "whereby a Contracting Authority awards a partner the right to manage and perform a specific service with respect to an infrastructure facility or other asset for an agreed time period." The new PPP law includes provisions to modify the aforementioned four types of PPPs to meet the government's other needs.

Rwanda has never employed management contracts in the health sector as defined under the law with the exception of King Faisal Hospital. In 1998, Netcare (a South African firm) signed an agreement to manage the hospital for five years. Most recently, on April 25, 2016, the government of Rwanda signed a deal with Oshen Healthcare Rwanda Limited (wholly owned by Oshen Group SA) to manage the hospital. Under this new PPP, the private partner is expected to facilitate maintenance, upgrade hospital infrastructure, finance new investments, operate services, and turn the hospital into a multispecialty regional referral facility.<sup>2</sup>

## II. SUMMARY OF INTERNATIONAL LITERATURE REVIEW

The literature review found that management contracts are one of the most common PPPs in the health care sector in Africa<sup>3</sup> (see text box at right). Significant benefits can be found in contracting the management of a public hospital to the private sector. These advantages include bringing health care management expertise, innovation, technical knowledge and skills, and a cultural shift toward a more entrepreneurial style.

A review of the World Bank's portfolio of PPPs in Africa found that out of 40 health PPP projects approved between fiscal years 1995 and 2003, 66 percent were implemented mainly through service contracts and 33 percent through management contracts.

Hospitals that implemented management contracts are more efficient than directly (government) managed hospitals. A study found that public hospitals in Brazil between 1998 and 2005 required approximately 60 percent more resources than hospitals under management contract to produce a comparable output<sup>4</sup> (see text box next page).

A number of best practices have been identified to help implement management contracts. The Asian Development Bank notes in Guidebook on Public-Private Partnership in Hospital Management the need for a comprehensive package of governance reforms.



Photo Credit: Iwan Baan

These changes include:

- autonomous authority for the contract manager
- flexible human-resource management
- strategic purchasing with contractual terms clearly defining the hospitals' roles and responsibilities; preserving its public mission and stipulating payment mechanisms, services to be delivered, and corresponding performance targets and reporting requirements
- contract monitoring and enforcement (the Achilles' heel of PPPs in developing countries)
- information and transparency, namely a robust process for managing information flows (there needs to be a legal requirement for the private partner to provide health-related data on a timely basis)

#### BRAZIL MANAGEMENT CONTRACTS IN 16 GENERAL HOSPITALS

Sixteen new facilities were put under management contracts between 1998 and 2005. The facilities average 200 beds and offer basic specialties, emergency care, outpatient care, and emergency services in low-income neighborhoods in heavily urbanized municipalities on the periphery of São Paulo.

A study of these PPPs revealed that the hospitals are more efficient, performing better than the publicly managed hospitals in a number of areas, including bed turnover rate (annual number of discharges per bed), bed substitution rate (average number of days a bed remains unoccupied between patients), bed occupancy, and length of stay. The study also revealed that, consistent with international best practices, these hospitals use about one-third fewer physicians and one-third more nurses than directly managed facilities. This more appropriate staff mix likely contributes to these efficiency findings.

The private partner needs assurance that the regulatory system includes protection from expropriation, arbitration of commercial disputes, respect for contract agreements, and legitimate recovery mechanisms. Other success factors highlighted in the literature are the use of long-term contracts that include careful definitions of each party's mutual contributions (inputs), a sensible risk-sharing allocation and residue value allocation, and incentive mechanisms for good management performance, tying payment to the achievement of pre-specified performance outputs—not inputs. PPPs are more successful when government planners are able to recognize and adapt to regional differences within the country's public health system: think and plan local. Variations in the availability of health manpower, competition, and family income are just some factors that need consideration in formulating a successful contract-management agreement. Management contracts must be customized; one size does not fit all.

### III. SUMMARY OF RECOMMENDATIONS FOR DECISION-MAKERS

Management contracts for public district hospitals can be an effective way to increase access, control costs, and improve quality. But there are a number of critical factors that will need careful attention for Rwanda to succeed:

**1. GOVERNMENT CAPACITY** in identifying, analyzing, procuring, negotiating, and monitoring needs to be developed quickly. Skills need to be built to analyze projects—including creating the capacity to conduct market analysis, structuring revenue-sharing mechanisms, and developing performance indicators and monitoring systems.

**2. STANDARDS** need to be detailed in the contract for service quality, medical products procurement, and financial reporting.

**3. HOSPITAL PERFORMANCE INDICATORS** for clinical effectiveness, patient centeredness, production efficiency, safety, staffing, and responsiveness to community need to be defined clearly. And the government must carefully and regularly monitor performance results.

**4. A SOCIAL-MARKETING AND PROMOTION PLAN** for public education and acceptance of a PPP for contract management of public hospitals must be developed and implemented to build public trust and support for the initiative.



5. **IDENTIFYING CONTRACTORS** with expertise and education in health care administration including hospital financial management, infection control, quality assurance, and human resource management is required.
6. **SCOPE FLEXIBILITY** is needed to adapt the resources available to the scope of the PPP project. For example, given a certain limit on the regulated tariff, the PPP project can benefit from contracting the same private provider to manage a group of hospitals in the whole province or district if a revenue-sharing mechanism based on volume is included in the contract.

1 Government of Rwanda. Law N° 14/2016 of 02/05/2016 Governing Public Private Partnerships.

2 The New Times, April 26, 2016. <http://www.newtimes.co.rw/section/article/2016-04-26/199305/>.

3 Marek et al (2005). Trends and Opportunities in Public-Private Partnerships to Improve Health Service Delivery in Africa. Human Development Sector Africa Region The World Bank.

4 Asian Development Bank (2013). Guidebook on Public-Private Partnership in Hospital Management.

Implementing Partner:



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