Inkosi Albert Luthuli Hospital in KwaZulu-Natal, South Africa

Full Description

Project Summary:

Background

In the 1990s, the Provincial Government of KwaZulu-Natal wanted to create one of the best hospitals in the Country. Initially, the idea was to build an academic hospital with 1,000 beds. But, due to its complexities and a lack of funding, the KwaZulu-Natal Department of Health (KZNDoH) decided to scale down the project to a referralonly hospital with 846 beds. The construction of the hospital began in 1996. To help realize the conceptual vision of a hospital with cutting-edge technology and high-quality services, the KZNDoH initiated a PPP process to select a qualified, private partner to deliver all nonclinical services. In 2000, the KZNDoH appointed a transaction advisor to complete a feasibility study and ensure the best value for money. The chosen advisor was the Ezempilo Consortium, consisting of Pricewaterhouse Coopers (PwC), Gobodo, White & Case, EC Harris/SAICOG, and Hiltron.

Project Structure

Selection of a private partner was conducted through a competitive tender process. A total of 23 pre-qualification documents were received, from which five bidders were selected to proceed with the submission of a proposal. After the bidding process in December 2001, a 15-year PPP contract worth approximately ZAR 746 million (USD 56 million) was awarded to the Impilo Consortium (Pty) Ltd. The consortium consists of Siemens Medical Solutions (31 percent), Vulindlela Holdings (26 percent), AME Austria (20 percent), Drake & Skull (9 percent), Mbekani (7 percent), and Omame (7 percent). Financial close was reached in February 2002.

Per the PPP agreement, the private partner would be responsible for all non-core functions of the hospital, including the cycling planned replacement and maintenance of medical equipment and IT systems. The agreement also required the establishment of a sinking fund for the duration of the project to fund periodic equipment refreshment. The KZNDoH would be responsible for the staffing and operation of the medical facilities. The equipment is to be handed over to KZNDoH afterthe 15-year contract, subject to an option for renewal.

The private consortium provided financing for the project in the form of ZAR 60 million (USD 4.5 million) in equity and ZAR 326 million (USD 24.5 million) in long-term debt. The KZNDoH made an additional ZAR 360 million (USD 27 million) capital contribution to improve the viability of the project.

The KZNDoH is also responsible for making availability payments to the private partner. An annual payment of ZAR 304.9 million (USD 22.9 million), linked to the Consumer Price Index, is payable in monthly installments.

Lessons Learned

The Inkosi Luthuli Central Hospital project started its operations in June 2002. Due to the positive response to the services delivered by the private sector, the contract has been extended through 2019.

However, the project did not adequately protect against foreign exchange risk, which can be significant as a significant amount of the equipment is imported. As the ZAR weakened by more than 20 percent after the feasibility study, the annual fee payable by the KZNDoH increased from ZAR 230 million (as stated in the feasibility study) to ZAR 250 million (USD 18 million).

The following lessons may be learned from this project.

- Be realistic and distinguish between wants and needs. The contracting authority prudently decided to downscale the project's scope after realizing the original concept was too complex and expensive.

- Invest in a good transaction advisor. The project was fraught with risk at the beginning, as construction had begun while the feasibility study for the project was still underway and not yet approved by the National Treasury. With assistance from the transaction advisor, the project was able to mitigate this risk by refocusing on the services, facilities, and operation and maintenance components of the hospital.

- Focus on the long-term. This project insisted on selecting a private consortium that would provide cutting edge technology, rather than proposals that offered cheaper, but lower quality, technology. The superior technology ensured a higher quality of service and provided savings on replacement and maintenance costs in the long term.

- Consider all of the ways that foreign exchange risk might impact a project. Typically, municipal PPPs face foreign exchange risk where revenues are derived in local currency while debt is provided in a foreign currency. In this case, however, the foreign exchange risk arose from the project's dependence on imported equipment. As the underlying PPP agreement failed to account for this risk, the municipality had to bear the full consequences of the weakening exchange rate.[1]

Footnote 1: Source(s): http://municipalfocus. co.za/public-privatepartnerships/ accessed 5 February 2019

http://www.ppp. gov.za/Documents/ Closed%20PPP%20 Projects%20as%20 at%20December%20 2011.pdf accessed 5 February 2019

https://core. ac.uk/download/ pdf/37321232.pdf accessed 5 February 2019

http://www.ppp.gov. za/PPPQuarterly/2001/ apr_2001.pdf accessed 5 February 2019

http://www.dpsa.gov. za/dpsa2g/documents/ networks/sms2009/ DHLOMOA%20case %20study%20of%20 best%20practice%20 Inkosi%20Albert%20 Luthuli%20Central%20 Hospital.pdf accessed 6 February 2019

https://researchspace. ukzn.ac.za/bitstream/ handle/10413/12059/ Ngwamba_Feruzi_ 2014.pdf?sequence=1& isAllowed=y accessed 6 February 2019

http://www.sabcnews. com/sabcnews/albertluthuli- hospital-a-firstof- its-kind/ accessed 6 February 2019

Farquharson, et.al. "How to Engage with the Private Sector in Public-Private Partnerships in Emerging Markets" available at https:// books.google.co.id/ books?id=SGcbNKhiG _IC&pg=PA126&lpg=P A126&dq=inkosi+hospi tal+availability+paymen t&source=bl&ots=snRA 8Kqq_0&sig=ACfU3U0 3CajpqG9IunoId7fJQb R5_y-MoQ&hl=e n&sa=X&ved=2ahUK Ewjl0YSIgprgAhWrl- AKHUhCDSAQ6AEw AnoECAUQAQ#v=one page&q=inkosi%20 hospital%20availability %20payment&f=false accessed 6 February 2019

Related Content
[Innovative Revenues for Infrastructure (Download PDF version) - Coming soon!]
Additional Resources
[Climate-Smart PPPs]
[Finance Structures for PPP]
[Financing and Risk Mitigation]

Page Specific Disclaimer

This is a new section of the PPPLRC website and is currently in draft form. Your feedback is welcome: If you would like to comment on the content of this section of the website or if you have suggestions for links or materials that could be included please contact us at ppp@worldbank.org.

To find more, visit the The Municipal Public-Private Partnership Framework - Project Summaries section, the Guidelines to Implementing Asset Recycling Transactions Section Overview and Content Outline, or download Full Version of the Report.