



European Bank
for Reconstruction and Development

Financing of Healthcare PPP Projects

EBRD Experience in Hospital PPPs

Astana, 28 August 2015



1. Financing Facility Management PPPs
2. EBRD Experience in Hospitals PPPs
3. EBRD's Client Support Approach
4. Conclusion

Facility Management PPPs:

- Building used by the public sector for delivering services (hospitals, schools, court house, etc.)
- Public sector provides the service (doctors, nurses, diagnosis)
- Private sector operates the building, not the service
- In some cases, private sector provides supporting services to the public sector (cleaning, catering, reception, security, laboratory)

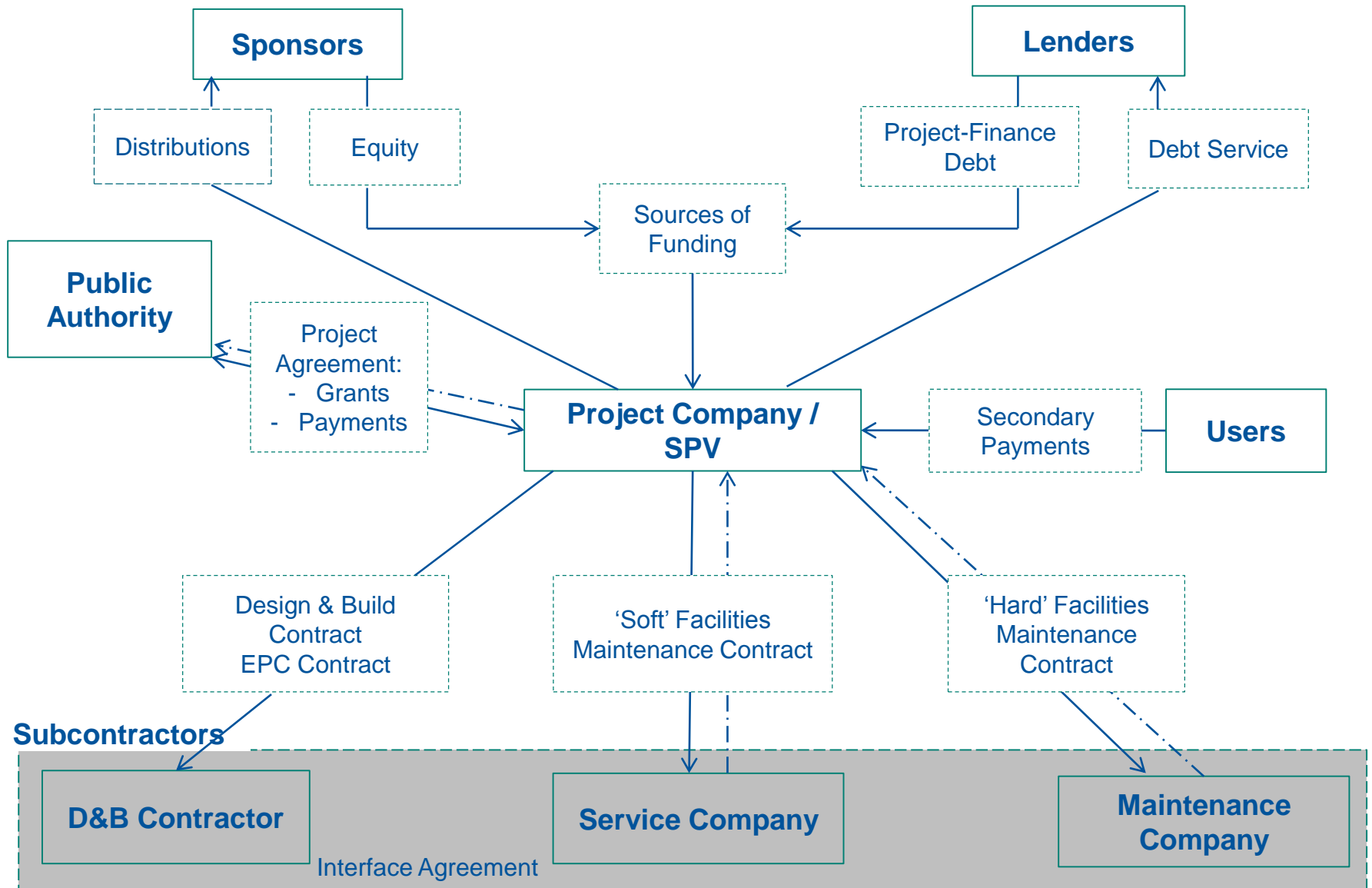
Private sector financing of the project involves:

- New Project Company (Special Purpose Company or SPV)
- Long-term contract (Project Agreement) with the Government
- Deploy of equity, and debt into the company
- Management of cash flows to pay obligations

Financing Facility Management PPPs Structure



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What lenders look in a PPP project:

- Project Agreement
 - Risk allocation and management
 - Payment structure (availability vs. usage-based payments)
 - Contract Flexibility
 - Contract Termination
- Grantor
 - Funding capacity
 - Fair and transparent procurement
- Sponsors
 - Credit Capacity and credit worthiness
 - Team (EPC and O&M Contractors)
- Business Model

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Turkish Programme:

- Expected need for more than 90,000 new hospital beds over the next ten years.
- Provision of hospital beds is low currently, at 2.5 beds per 1,000 people, almost half of the OECD average of 4.8 beds.
- Some 50,000 beds are planned to be delivered across 60 new hospital facilities management PPPs.
- The Turkish government's PPP programme has already commenced from a procurement standpoint, with 17 tenders

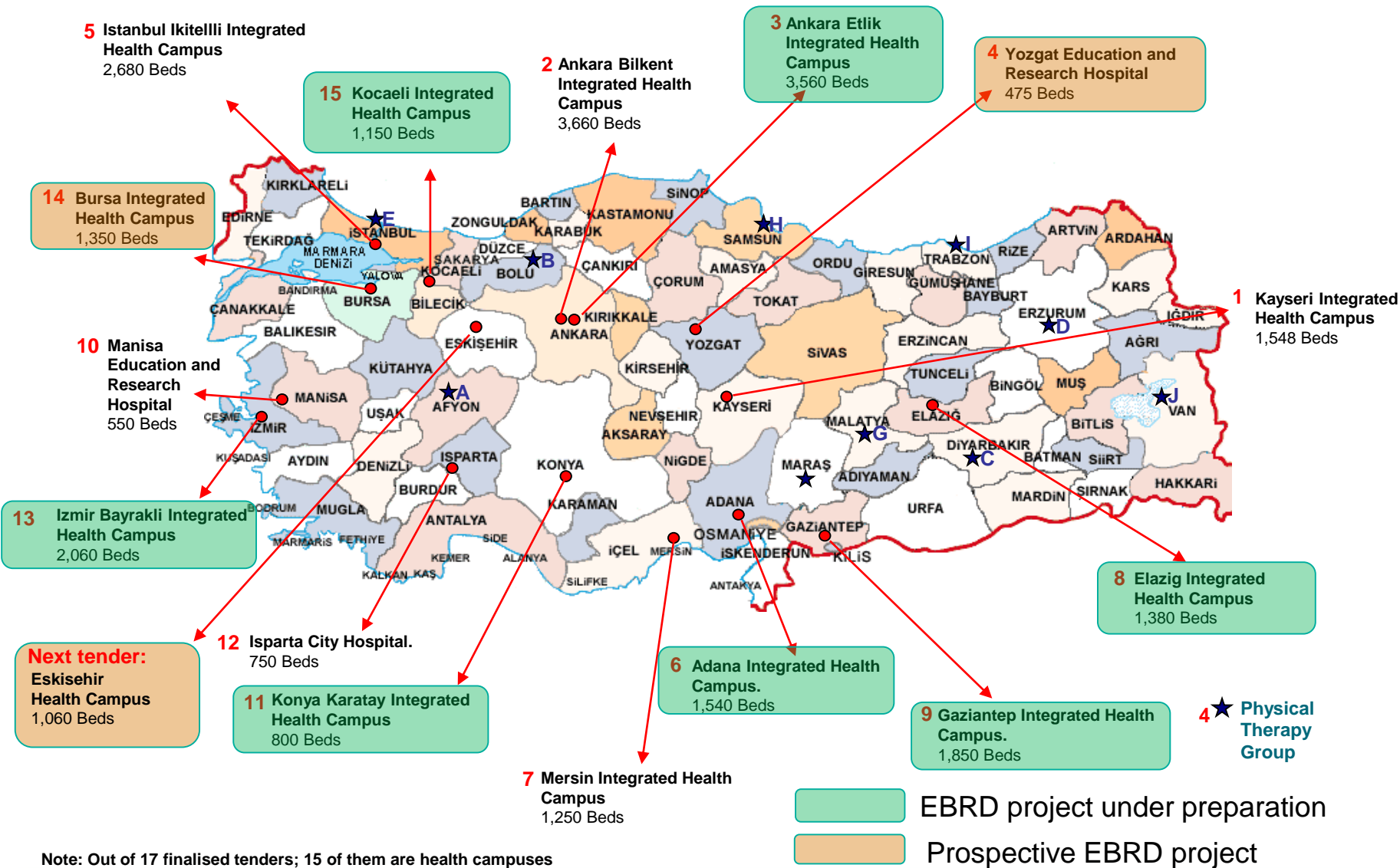
EBRD Framework:

- Approved September 2014
- Up to 8 projects and €600 million envelop
- During 2014, 2015 and 2016

Projects Tendered as PPP



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Note: Out of 17 finalised tenders; 15 of them are health campuses



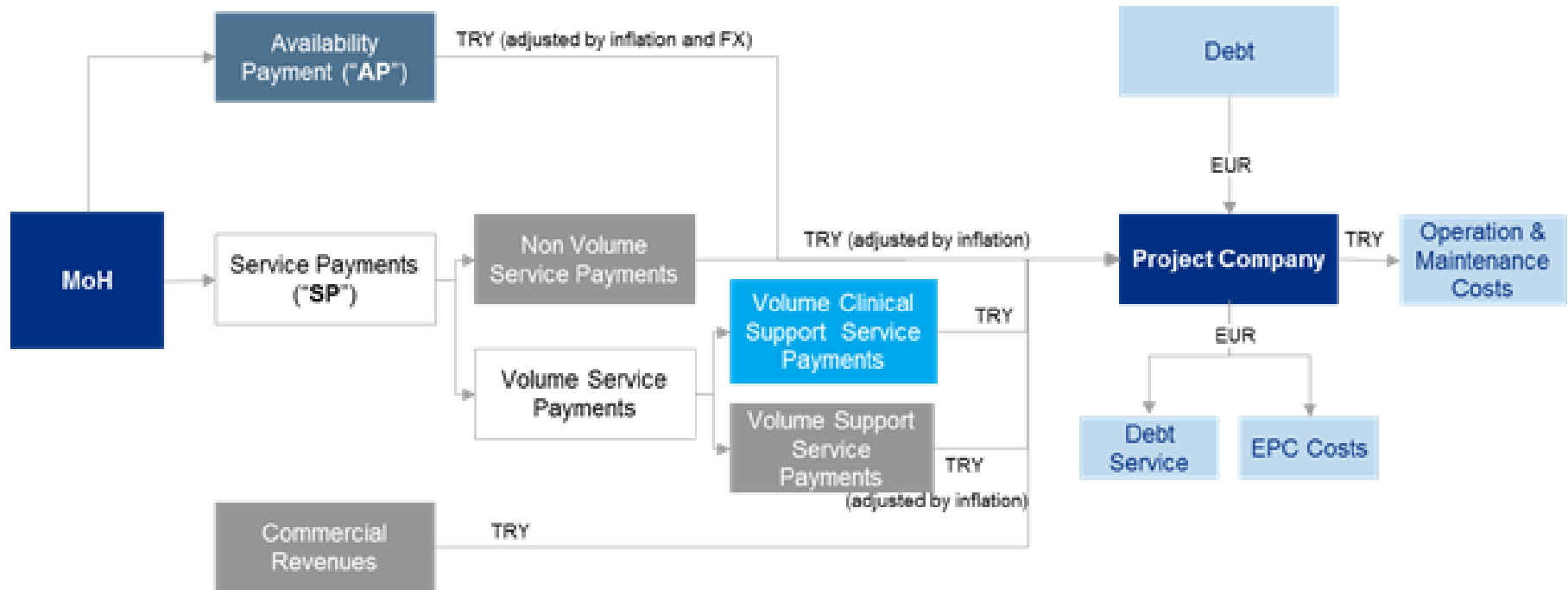
- **EBRD debt size:** max 35% of total financing.
- **A loan:** € 50-125 million ticket size.
- **B loan:** depending on syndication to other financial institutions.
- **Equity investments:** where appropriate.
- **Maturity:** up to 18 years (the tenor of the EBRD A-Loan can be max 3 years more than B-Loan tenor or the tenor of parallel loans).
- **Pricing:** market pricing linked to risk level.
- **Security:** concession agreement, physical security, lenders direct agreement and where possible share pledge.
- **Due diligence:** to be carried out by professional and independent advisors.

- Scope: Design, financing, construction, equipment and provision of full set of non-clinical services.
- Term:
 - Design and Construction: 3-4 years
 - Operation: 25 year
- No payment until the hospital is delivered according to specifications.
- MoH provides land and services to the site.
- Structure is based on UK PFI model adjusted to improve bankability in the Turkish market.
- The first round of projects have gone through negotiation period to resolve a number of challenges that made lenders uncomfortable

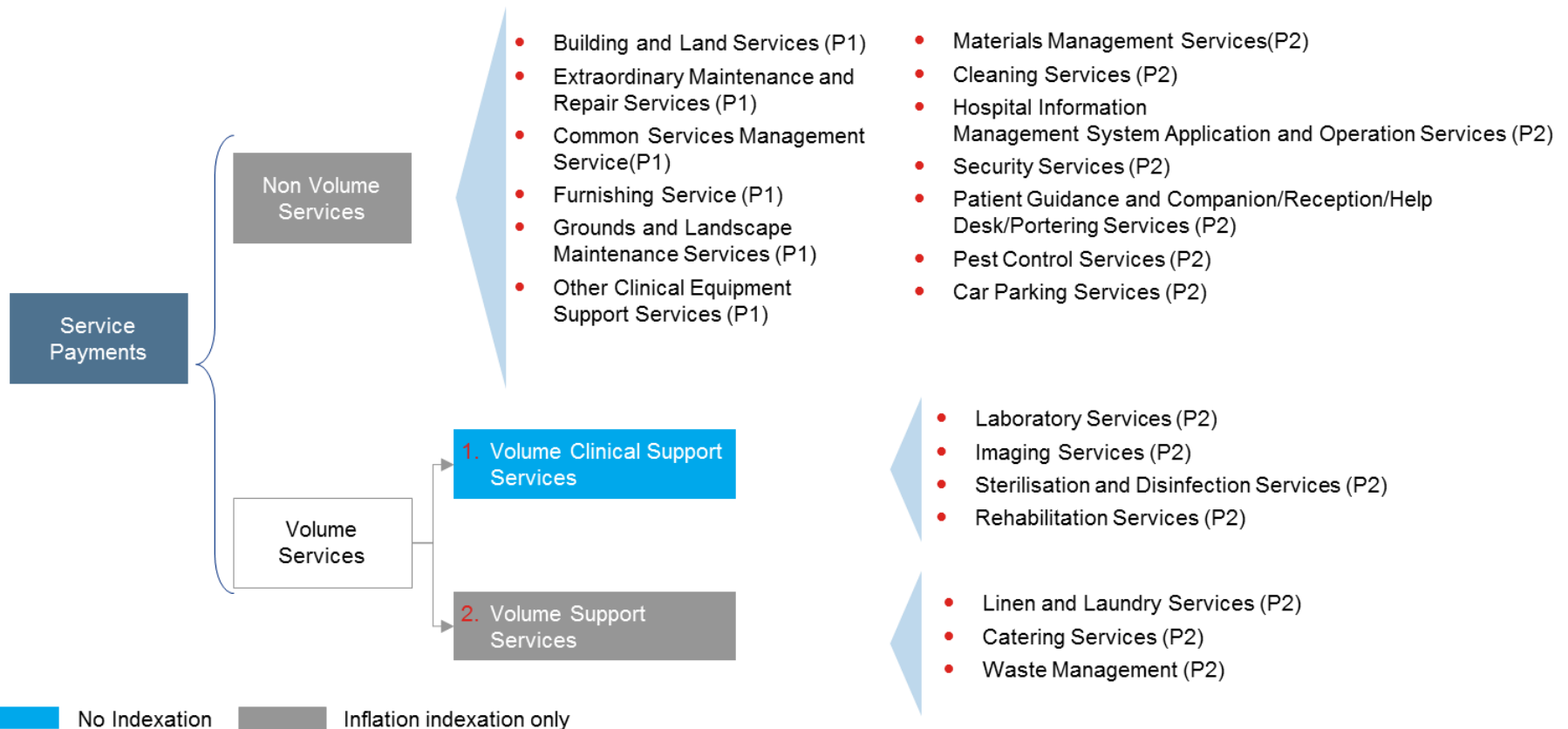
Payment Mechanism



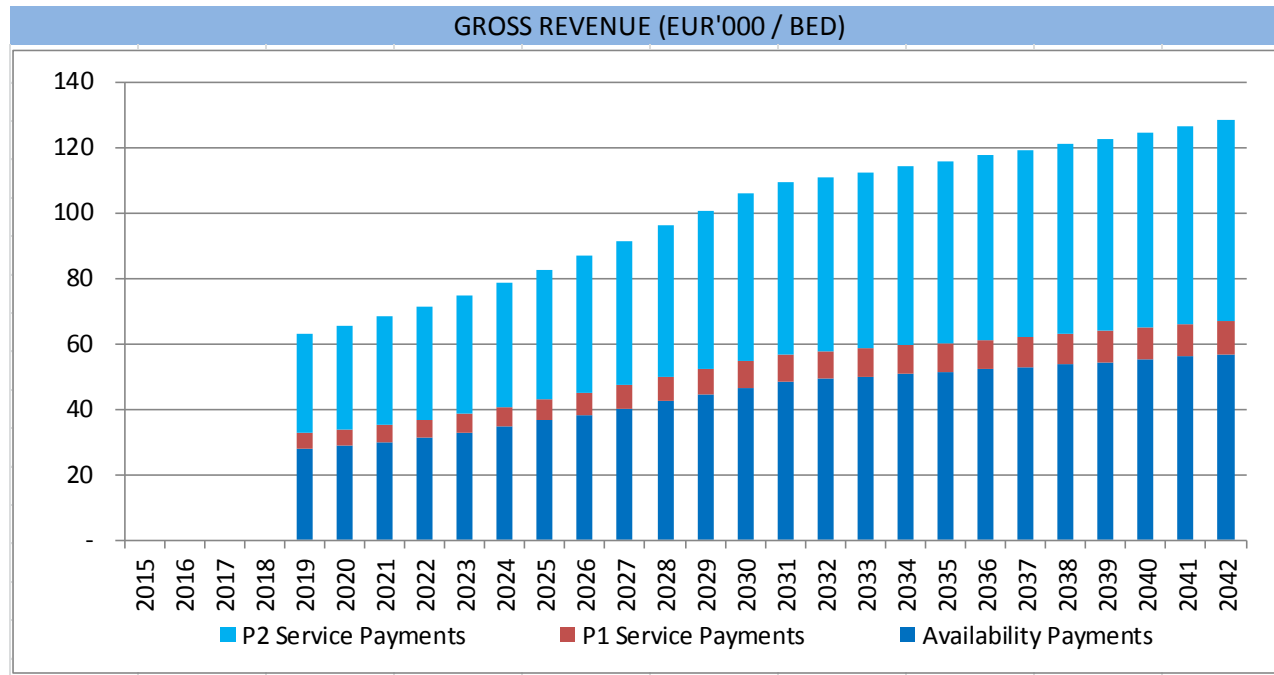
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Services Provided by PPP Company



The services are also classified as “P1 Services” which are the obligatory services to be provided by the PPP Company and “P2 Services” which are optional. Broadly, P1 Services are referred to as Hard Facilities Management Services, which revolve around maintenance of the infrastructure assets. P2 Services are referred to as Soft Facilities Management Services, which revolve around the support services of the hospital.



- P2 Services are very relevant and it is difficult to transfer the price risk in the long term. PPP contract includes a market test adjustment every five years (price risk retained by the government)
- All Payments are adjusted with inflation index or similar
- Availability Payments are also adjusted for currency depreciations
- In addition, Project Company must operate commercial activities in the Hospital and use those revenues to partially offset project cost

- The projects are sizable and require significant debt and equity tickets.
- Sponsors expectations are towards aggressive structures:
 - Over leverage?
 - Are there prudent cover ratios?
 - Is equity commitment risk of sponsors addressed?
 - Calculation of FX risks associated with the tariff mechanism?
- Due diligence to be carried out by professional advisors is very important (legal, technical and financial).
- Project Agreements (Direct Agreement) are to be finalised with the Authorities.

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Our Principles of Engagement



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Promotes transition to market economies, private ownership and good governance with respect for people and environment

Transition
Impact

We focus **Economic, Social and Environmental** benefits...

Invests in financially viable projects, together with the private sector

Sound
Banking



Supports, but does not replace, private investment

Addition-
ality

How we deliver results?



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Three-pronged support for Ministry of Health:



Development of strong institutional and regulatory frameworks

-VfM Methodology-

Donor funded technical cooperation to overcome barriers and facilitate implementation

-Monitoring Unit-

Wide range of financing instruments for public and private clients

-Contract Best Practice-

EBRD value-added: Structuring Support to MoH

Best Practice PPP Contract:

- **Objective of the Support:** EBRD has been instrumental in refining the PPP contracts for the first sub-projects (Adana and Etlik), resolving critical bankability issues, and paving the way for the rest of the programme to reach financial closure
- **Some examples** of key issues addressed by the Bank with MoH:

FX risk	There is a hard currency floor price mechanism for Availability payments.
Payment Liability	MoH is liable for Payment of Termination Compensation. MoH liability is backed by central budget of Turkey
Termination and compensation to lenders	Lenders will be fully paid at termination arising from Force Majeure, expropriation/nationalization, operator's default, MoH default, successful court challenges.
Funder's Direct Agreement (FDA)	Funders are entitled to step-in rights via the FDA. Lenders to terminate in certain cases.
Change in law	The concessionaire will be entitled to additional payments as a compensation against change in law.
Variations are capped	Any variation above 1% of project cost must be covered by Availability Payment increase or direct MoH payment.
Delay events and excusing causes	There is relevant cure periods for variations, MoH's breaches, discovery of antiques, contamination of land etc.
Uninsurable risks	Uninsurable risks are paid by the state.
Governing Law	Project Agreements and FDA provides for Turkish law. Loan Agreements are in English law with appropriate arbitration clauses.
Cap on Deductions	Deductions to Service and Availability payments are capped at a level that transfer

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- Healthcare PPPs can be privately financed if they are structured in a bankable and tested manner.
- EBRD has successful experience in financing PPP projects in the sector.
- EBRD supports authorities in developing projects. TC grants partially finance project preparation, implementation and institutional development.
- EBRD offers long term debt and equity financing and takes on the leading role in financing the private operator.
- We have a long term engagement in Kazakhstan and we would like to be a preferred partner for both public authorities and investors.

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