Facility Management
PPP Projects

EBRD Experience in Hospital PPPs
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Creating the Environment for Private Sector Participation

• Commercialisation within the sector is often the first step:
  – Tariffs and user fees set at cost recovery levels
  – Improved systems to keep track of cash flow and operating costs
  – Outsourcing of both core and non-core activities
  – Public service and delegated management contracts

• Regulatory and legal reforms to support the private sector and a clear understanding and allocation of risks between the public and private sectors

• Key technical cooperation:
  – FOPIPS
  – Option Studies
  – Assistance with PPP tendering
Public procurement and private financing

<table>
<thead>
<tr>
<th>Public authorities objectives</th>
<th>Private sector objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Managing budget constraints over the long-term</td>
<td>• For contractors:</td>
</tr>
<tr>
<td>• Outsourcing the management &amp; maintenance of the facility (non-core functions) from public operation to private</td>
<td>– Complete approach to procurement (design + build + finance)</td>
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<td>– Predetermined mostly fixed price</td>
<td>– Long-term maintenance turnover</td>
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<td>– Savings vs. public operating costs</td>
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<tr>
<td>– Efficiencies</td>
<td>• For investors:</td>
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<tr>
<td>• Balance between construction costs and lifecycle costs</td>
<td>– Long-term CPI linked investment</td>
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<tr>
<td>• Deficit and Balance Sheet relief</td>
<td>– Limited operational / construction risks</td>
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<td></td>
<td>– Long-term contracted revenues from creditworthy counterparty</td>
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Infrastructure Policy Dialogue: How best Incorporate the Private Sector in Facility Management PPP

- **Focus**: Several countries now moving toward PPPs in this sector. A body of learning from international hospital, schools/university, and other public building PPPs will be presented and guidance suggested

- **Problematic**: Facility Management PPPs require careful preparation. Which roles should the private sector play, and which areas of activity should be retained by the public sector? What can be improved in regulatory framework, government capacity requirements, lack of financial resources, procurement practices to unlock private investment

- **Participants**: Governments with a pipeline of Facility Management PPPs (Croatia, Turkey, Egypt, Ukraine, Poland, others)

- **Target**: Government officials and other key stakeholders, such as regulators and policy makers, private sector investors in PPPs as audience.
PPP Hospital Programme in Turkey

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 on 17 September 2014
- Up to 8 projects and €600 million envelope
- During 2014, 2015 and 2016
Projects Tendered as PPP

1. Kayseri Integrated Health Campus, 1,548 Beds
2. Ankara Bilkent Integrated Health Campus, 3,660 Beds
3. Ankara Etilk Integrated Health Campus, 3,560 Beds
4. Yozgat Education and Research Hospital, 475 Beds
5. Istanbul Ikitelli Integrated Health Campus, 2,680 Beds
6. Adana Integrated Health Campus, 1,540 Beds
7. Mersin Integrated Health Campus, 1,250 Beds
8. Elazig Integrated Health Campus, 1,380 Beds
9. Gaziantep Integrated Health Campus, 1,850 Beds
10. Manisa Education and Research Hospital, 550 Beds
11. Konya Karatay Integrated Health Campus, 800 Beds
12. Isparta City Hospital, 750 Beds
13. Izmir Bayraklı Integrated Health Campus, 2,060 Beds
14. Bursa Integrated Health Campus, 1,350 Beds
15. Kocaeli Integrated Health Campus, 1,150 Beds

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

EBRD project under preparation
Prospective EBRD project
EBRD-participated PPP Projects in Turkey

EBRD Framework Envelope Approved:

- Two project have been already approved for €250 million
- Both projects are imminent:

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project cost EURm</th>
<th>Beds</th>
<th>EBRD Financing EURm</th>
<th>Co-financiers</th>
<th>Signing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Adana Hospital PPP</td>
<td>460</td>
<td>1,540</td>
<td>125</td>
<td>IFC Commercial Banks</td>
<td>2014 expected</td>
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<td>BSTDB SACE Commercial Banks</td>
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<tr>
<td>2 Etlik Hospital PPP</td>
<td>1,100</td>
<td>3,560</td>
<td>125</td>
<td>IFC Commercial Banks</td>
<td>2014 expected</td>
</tr>
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<td>BSTDB SACE Commercial Banks</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,560</strong></td>
<td><strong>5,100</strong></td>
<td><strong>250</strong></td>
<td></td>
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</table>
Financing of Turkish Hospital PPPs

- **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 advisors.
Hospital PPP Typical Structure

- **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.
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.
Financing Issues

- 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.
## Facility Management PPP: Lessons Learnt

### Potential Advantages
- Improved project selection
- Private sector efficiency gains (in design/construction, O&M, management)
- On-time, within budget delivery
- Technical innovation
- Better risk management
- Whole-life cost approach
- Revenue maximising

### Potential Challenges
- Interface issue with existing government infrastructure/services & institutions
- Project preparation costs
- ‘Regulatory capture’ or failings
- Affordability/’gold plating’ syndrome
- Underlying public funding risks when using availability payments

### Common PPP Pitfalls
- Weak pipeline
- Weak cost/benefit or VfM analysis
- Incomplete cost estimates
- PPP contract design issues
- Tendering issues/poor competition
- Weak monitoring or PPP contracts

*Adapted from World Economic Forum/BCG, Steps to prepare and accelerate Public-Private Partnerships, April 2013*
Our Principles of Engagement

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

Invests in financially viable projects, together with the private sector.

We focus Economic, Social and Environmental benefits…

Supports, but does not replace, private investment.
How we deliver results?

Three-pronged support for authorities:

- **Technical Cooperation**
  - Donor funded technical cooperation to overcome barriers and facilitate implementation
    - Monitoring Unit

- **Policy Dialogue**
  - Development of strong institutional and regulatory frameworks
    - VfM Methodology

- **Projects & Investments**
  - Wide range of financing instruments for public and private clients
    - Contract Best Practice
EBRD value-added (1): 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. Availability Payments comprise minimum 50-75% of the revenues. |
| 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. |
| 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. |
EBRD value-added (2): Policy Dialogue Support to MoH

Elaborating and Adopting a Rigorous VfM Methodology

- **Objective of the Support:** demonstrate in a rigorous manner that a given PPP project provides value vs a traditional public procurement approach. This can be critical not only in determining which projects to pursue as PPPs, but also in building a robust defence of the PPP choice.

- **TC Support:** The VfM will be carried out for all projects to be financed by the Bank, as well as all projects still under technical preparation by MoH.

- **Replicability:** for future hospital infrastructure PPPs (if any) but also to other sectors amenable to PPPs (e.g., education PPPs).
Ensuring robust contract monitoring

- **Objective of the Support:** to prepare MoH for the demands of monitoring of various individual PPP contracts as the programme is rolled-out

- **TC Support:** Providing the design and training of a dedicated national team to act as equal counterpart to PPP contractors, given a PPP’s value depends on the private sector being held accountable for delivering the benefits they offered.
Conclusions

- EBRD has successful experience in financing PPP projects in the region.
- 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 Ukraine and we would like to be a preferred partner for both public authorities and investors.
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