Concession project “Construction and operation in Almaty of general hospital at Kazakh National Medical University after S. D. Asfendiyarov”
PPP Advisory Center

**Mandated** as a legal entity for advisory support of national and regional concession projects by the decree of the Government of the Republic of Kazakhstan on 30 April 2014 №248.

**The mission**

to support the development of infrastructure in the Republic of Kazakhstan by providing advisory services on preparation and implementation of infrastructure projects including PPP projects.
<table>
<thead>
<tr>
<th>Name of the concession project</th>
<th>Construction and operation of a multi-disciplinary hospital at Kazakh National Medical University named after SD Asfendiyarov RSE in Almaty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Grantor</td>
<td>Ministry of Healthcare and Social Development of the Republic of Kazakhstan</td>
</tr>
<tr>
<td>Concession Type</td>
<td>Design – Finance – Build– Maintenance – Operate (DFBMO)</td>
</tr>
<tr>
<td>Срок концессии</td>
<td>20 years</td>
</tr>
<tr>
<td>CAPEX in constant prices (est.)</td>
<td>USD 109,5 mln. (29,6 bln. tenge)</td>
</tr>
<tr>
<td>Objectives of the project</td>
<td>• Applying new technologies to improve quality of medical services to the population of the Republic of Kazakhstan</td>
</tr>
<tr>
<td></td>
<td>• Providing base for clinical training of students and retraining of doctors of KazNMU involving on the latest achievements of medical science</td>
</tr>
<tr>
<td></td>
<td>• Creating a base for scientific and clinical research in cooperation with foreign scientific communities</td>
</tr>
</tbody>
</table>
Concession object

- The object is to be located in the Nauryzbayskiy district of Almaty
- The object consists of a 300-bed hospital and clinics that can handle 300 visits per day
Concept of the project
Trends in the development of Almaty

• The role of the private health sector is increasing in Almaty

*In 2009 to 2013 number of private outpatient organizations and doctors' offices in Almaty almost doubled from 168 to 293.*

• Competition among private and public organizations is expected to increase due to introduction of the insurance system

*This demonstrates the need for quality services and the confidence of patients in the planned hospital.*

**According to the marketing study of medical services in Almaty optimal capacity of the university hospital is 300 beds**
# Concept of the project

## Structure of profiles and beds

<table>
<thead>
<tr>
<th>Profile</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Therapeutic</td>
<td>40</td>
</tr>
<tr>
<td>Cardiological</td>
<td>30</td>
</tr>
<tr>
<td>Neurologic</td>
<td>30</td>
</tr>
<tr>
<td>Endocrinological</td>
<td>30</td>
</tr>
<tr>
<td>Rheumatological</td>
<td>25</td>
</tr>
<tr>
<td>Ophthalmological</td>
<td>20</td>
</tr>
<tr>
<td>Traumatologic</td>
<td>30</td>
</tr>
<tr>
<td>Surgery</td>
<td>30</td>
</tr>
<tr>
<td>Interventional cardiology</td>
<td>15</td>
</tr>
<tr>
<td>Gynaecological</td>
<td>20</td>
</tr>
<tr>
<td>Rehabilitation of adults</td>
<td>30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>
Concept of the project
Types and volume of outpatient services

<table>
<thead>
<tr>
<th>Out-Patient Daily Department’s Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ophthalmologic Treatment</td>
</tr>
<tr>
<td>Otolaryngological Treatment</td>
</tr>
<tr>
<td>Proctologic Treatment</td>
</tr>
<tr>
<td>Gynecological Treatment</td>
</tr>
<tr>
<td>Therapy</td>
</tr>
<tr>
<td>Surgery</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consultations of doctors - 300 visits per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Therapist</td>
</tr>
<tr>
<td>Gastroenterologist</td>
</tr>
<tr>
<td>Pulmonologist</td>
</tr>
<tr>
<td>Nephrologist</td>
</tr>
<tr>
<td>Rheumatologist</td>
</tr>
</tbody>
</table>
Types of Support Services

**Operating rooms, beds in intensive care beds, in the recovery room**

Diagnostics Center
- Functional diagnostics and ultrasound: EKG, EEG, Doppler blood vessels
- Radiological diagnosis: CT, MRI, X-ray diagnostics, mammography
- Endoscopy

**Center for Laboratory Medicine**

**The spectrum of research:**

1. Immunological
2. Biochemical
3. Hemostasis
4. Hematology
5. Cytological
6. General hospital
7. Immunology
8. PCR analysis
9. Immunoassay
Concept of the project

Strengths of the project

**Strategic importance for Government**

• The project is in line with the Strategic Plan of development of healthcare of Kazakhstan up to 2020 and Perspective plan of the network of health care organizations of Almaty city for 2015-2025.

**Economic advantages of Almaty**

• In 2010 - 2014, the population of the city increased by 16.19%, while the real income of the population grew by 26%*

**Strong resource base**

• Kazakh National Medical University benefits from 1454 lecturers, including 4 academicians, 172 doctors of science, 475 candidates of science.

• More than 1,600 medical professionals are graduated from KazNMU annually

• Ministry envisages high level of medical equipment of the university hospital
The preliminary stages of the project vision (competition dates)

Schedule of pre-investment stage

1. Development of the concession proposal
2. Development of tender documentation and draft concession agreement
3. Competition for the selection of the concessionaire

*BAFO – Best and Final Offer
The preliminary stages of the project vision (competition dates)  
Schedule of pre-investment stage

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
</table>
| 2 months  | Pre-qualification  
Initial discussion                                                      |
| 3 week    | Receipt of applications to confirm compliance with the qualification requirements |
| 6 months  | Participants who have passed the qualification are invited to competition |
| 2 months  | Submission of applications                                               |
| 2.5 months| Announcement of BAFO                                                      |

- Estimation of conformity of criteria
- Competitive dialogue
- The development of competitive application, including a feasibility study
- Choosing of BAFO
- Negotiations with the participant whose bid as the best
- Announcement of the winner and the signing of the contract
Preliminary project concept

Construction of flagship hospital and clinics on a concession basis

• An investor is invited to build the object, supply equipment, and provide technical maintenance
• The preliminary contract duration is 20 years
• Medical services in the hospital are to be provided by a state operator (on basis of KazNMU)

Legal aspects

• The project is carried out in accordance with the Kazakhstan Law “On Concessions”
• The concessionaire is to design, build and operate a 300-bed hospital and clinics with a capacity for 300 visits per day (concession object)
• The Kazakhstan Ministry of Health and Social Development (MHSD) acts as a grantor
• 2-stage tender procedure: prequalification and bidding process
• Upon the start of operation the object is transferred to the state. The concessionaire obtains rights of use and ownership until the end of concession period
• At the end of concession period the concessionaire shall return the object to the grantor in an appropriate condition
• The grantor shall provide a land plot for construction and shall pay an availability payment

Typical pack of other project agreements

• Financing agreement with shareholders
• Agreement with shareholders for the provision of subordinated debt
• Senior loan agreement
• Direct agreement
• EPC-contract
• Operation services contract
Organisational and legal structure

Kazakhstan Ministry of Health and Social Development (grantor)

Concessionaire

Interaction agreement №1

Medical operator

Interaction agreement №2

Hospital and clinics (concession object)

Partner university clinics

Concession agreement

The hospital is transferred to operational control

transfer to operational control

Medical services agreement

GVFMS* Agreement

Department of the committee for the payment of medical services

Voluntary health insurance agreement

Patients

Insurance companies

Rights of use and ownership

Notes:  * GVFMS – Guaranteed Volume of Free Medical Services
### Compensation for investment costs

- Repayment of the principal
- Interest payments during construction
- Bank fees during construction
- Security bonds bank guarantees

### Concession management fee

- Compensation of concession object management costs to shareholders
  - Repayment of the subordinated debt principal
  - Interest payments on subordinated debt
  - Shareholder’s return on investment in the form of dividends
  - Interest payments during operation
  - Bank fees during operation stage

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**Availability payment**

Availability payment will be guaranteed by the government and paid regularly.
### Compensation of operational costs

<table>
<thead>
<tr>
<th>Supply and maintenance of medical equipment:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The maintenance of medical equipment (till the 1\textsuperscript{st} upgrade)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utility services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The maintenance of electricity, water, heat, lighting, air conditioning, IT systems</td>
</tr>
<tr>
<td>• General cleaning services, sanitation</td>
</tr>
<tr>
<td>• The cleaning of nearby areas</td>
</tr>
<tr>
<td>• Waste disposal, medical waste disposal</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maintenance services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Maintenance of the building, technical equipment, elevators</td>
</tr>
<tr>
<td>• Maintenance of the medical gas supply system</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Communication services (including the internet)</td>
</tr>
<tr>
<td>• Security services</td>
</tr>
<tr>
<td>• Disinfection</td>
</tr>
<tr>
<td>• Catering services for patients</td>
</tr>
<tr>
<td>• Laundry services</td>
</tr>
<tr>
<td>• Free car parking</td>
</tr>
</tbody>
</table>
Payment mechanism (3/3)

Additional revenue of the concessionaire (not covered by the availability payment)

- Additional paid catering services
- Pharmacy sales
- Waste disposal services for other clinics (B- and C-class waste)
Preliminary cash flows. Construction stage

Shareholders (Sponsors)

Subordinated lender

Financing institution (Bank 2)

Concessionaire

Financing institution (Bank 1)

Shareholder’s capital

Senior long-term debt

Interest payments / fees under senior long-term debt

Security bond fees

Insurance costs

Taxes

Insurance companies

Kazakhstan state budget

General contractor

Taxes

Payment for construction works

Subordinated debt

Shareholder’s capital

Senior long-term debt

Security bond fees

Insurance costs

Taxes

Insurance companies

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Insurance companies

Kazakhstan state budget

General contractor

Taxes

Payment for construction works

Subordinated debt
Preliminary cash flows. Operational stage

**Shareholders (Sponsors)**
- Dividends, repayment of share capital

**Subordinated lender**
- Principal and interest repayments on subordinated debt

**Concessionaire**
- Access fees
- Security bond fees
- Fees, principal and interest repayments on senior long term debt
- Taxes

**Grantor**
- Kazakhstan state budget
  - Taxes

**Medical operator**
- Payment of GVFMS* tariff
- Payment under partner agreement
- Revenue from paid medical services

**Department of the committee for the payment of medical services**

**Partner university clinics**

**Patients**

**Financing institution (Bank 1)**
- Insurance costs
- Payments from Voluntary Medical Insurance
- Taxes

**Financing institution (Bank 2)**

**Insurance companies**

Notes: * GVFMS – Guaranteed Volume of Free Medical Services
General PPP project structure. Key project agreements

Loan agreement

- The main document between the lenders and the private partner contains the project funding terms: the list and terms of all loan facilities under the project, requirements for drawdown and repayment, security, debt covenants, and early repayment terms, including early termination of the concession agreement.

Direct agreement

- Three-way agreement between the public partner, private partner and the lenders under which the public partner agrees to give the lenders a period of advance notice of the impending termination of the project arrangement.
- This agreement also gives the lenders the opportunity to step in, either directly or through a nominee or representative, to remedy the termination event or to find another party who will be acceptable from the point of view of taking over the rights and obligations of the private partner under the concession agreement.
Key project agreements

Shareholders' agreements on equity contributions

• The document specifies the terms of equity contributions
• Usually sponsors pay their equity early before any other funding and take the risk of insurer of last resort to cover any insurance gaps

Shareholders' agreements on subordinated debt

• The document specifies the terms of subordinated debt provided by shareholders
• Subordinated debt acts as quasi-equity, but shareholders are able to minimise dividend tax

EPC-contract

• Construction contract with the building contractor, under which the private partner’s construction obligations under the concession agreement pass to the building contractor
• The building contractor provides warranties to both the public partner and the lenders. The lenders generally have the first right to step into the construction contract in place of a private partner. Any rights the public partner has are usually subject to the rights of the lenders

Service contract

• The private partner enters into service contracts with service providers and passes on its service obligations under the concession agreement to these contractors. The service providers provide warranties to the public partner and the public partner has step-in rights in certain circumstances, subject to the rights of the lenders
# Project security backing and its terms

### Timeline:

<table>
<thead>
<tr>
<th>Tender</th>
<th>Construction</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bid bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conditions precedent bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance payment bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance bond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve account to guarantee facility handback</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Bid submission**: Winner chosen
- **Commercial and financial close**: Conditions precedent to construction met
- **Start of operation**: opened several years before the end of the concession
- **End of concession**
Thank you for your attention!

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