

MULTILATERAL DEVELOPMENT BANKS' COLLABORATION:
INFRASTRUCTURE INVESTMENT PROJECT BRIEFS

Turkey: Elazig Hospital



Overview

The Elazig Hospital PPP Project will increase the access to quality health services for 1.6 million people in Eastern Anatolia. The project is part of the government of Turkey's ambitious Health PPP Program that aims to build around 30 health campuses, and by doing so, increase the access and quality of secondary and tertiary levels health services in the country. The European Bank for Reconstruction and Development (EBRD), the World Bank Group's International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) and other development finance institutions are jointly providing financial support to this project.

This series showcases how the Multilateral Development Banks' collaboration supports the development and implementation of infrastructure investment. This support comes in the form of public sector loans, private sector finance, sector and transaction advice, guarantees, and output-based aid.

Background

Turkey is the 17th largest economy in the world. Since 2000, it has made impressive progress in reducing poverty. According to the World Bank, the incidence of poverty fell from 44 to 22 percent between 2000–12; extreme poverty levels fell to an even greater extent, from 13 to five percent. On the health front, the government of Turkey adopted the Health Transformation Program in 2003, which has been instrumental in achieving universal health coverage, increasing the use of health care services and improving health outcomes for all population segments regardless of their income status. By 2011, life expectancy grew from an average of 71 to 74.5 years, and infant mortality rates declined among the poorest fifth of the population to levels comparable to the richest fifth.

Despite these advances, new challenges have emerged, including the rise in non-communicable diseases (cardiovascular disease, diabetes and cancer) and of substance addiction requiring increased access to health care services at the secondary and tertiary levels. In response, the government embarked on a multi-pronged approach to improve population coverage and quality of services, including building new public hospitals and refurbishing existing ones. One way in which the government is pursuing this is through an ambitious €15 – 20 billion PPP investment program to build close to 30 integrated health campuses around the country.

Project Description

The project will provide access to healthcare services to 1.6 million people in Elazig, a city of 350,000 in eastern Anatolia, and the surrounding provinces. It will have more than 1,000 beds divided among different health facilities including a general hospital, a women's/maternity and children's hospital, a high-security forensic psychiatric hospital, and a dental clinic.

The 28-year concession was awarded by the Turkish Ministry of Health to ELZ Saglik Yatirim, a consortium consisting of Meridiam, Rönesans, and the Turkish companies Sila Group and S.A.M. Yapı Sanayi ve Ticaret Ltd. to design, build, finance, equip and maintain an integrated hospital campus in Elazig.

With a debt to equity ratio of 80:20, the debt portion of the €360 million greenfield hospital PPP was financed through the issuance of a €288 million bond by ELZ Finance S.A., who will on-lend the proceeds to the project consortium. The bond is the first "green and social" project bond in the history of Turkey as verified by Vigeo Eiris, a major environmental, social and governance rating company. Furthermore, the project bond benefits from the first liquidity-backed political risk insurance for a greenfield project bond offered by MIGA and EBRD. This credit enhancement contributed to the Baa2 rating of the bond by Moody's, which is two notches higher than Turkey's sovereign debt rating.

The Program has reached a critical milestone, with the opening and commissioning of the first hospitals, Yozgat and Mersin Hospital PPPs, which became operational in January and February of 2017, respectively. With the first availability

payments performed by Ministry of Health, the operations period is now tested and the program has reached a mature stage. The project also recently won the IJGlobal Awards 2016 for European Social Infrastructure.

Multilateral Development Banks' Role

Development financing support was provided to the project bond issuance including bond subscription by the bilateral institutions Proparco and FMO. Multilateral support was provided as follows:

- €80 million IFC investment in the project bond on a parallel basis in an unenhanced and unrated tranche
- €89 million EBRD liquidity facilities supporting the construction and operational phases of the project which complements MIGA's political risk cover
- A 20-year MIGA political risk guarantee in support of the investment-grade portion of the bond (€208 million) and MIGA guarantee to equity investment in the project

Finally, both the World Bank's International Bank for Reconstruction and Development and EBRD are assisting the Ministry of Health to build the necessary institutional capacity for PPP contract management and monitoring as part of their broader support to the Government of Turkey's health reform program.

The transaction represents a milestone in the cooperation between IFIs for the creation of an innovative new risk mitigation instrument.

Outcomes

The main expected development benefits of the project consist of improving patient access to high quality health services for 1.6 million people, realigning capacities with country needs and creating a demonstration effect applicable to other sectors in Turkey if successfully implemented.

The project anticipates employing a maximum of 2,000 people during the construction period and 3,000 during the operational period, including approximately 1,900 health service and administrative personnel employed by the Ministry of Health and 1,250 service and administrative personnel employed by the project consortium and its service providers.

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