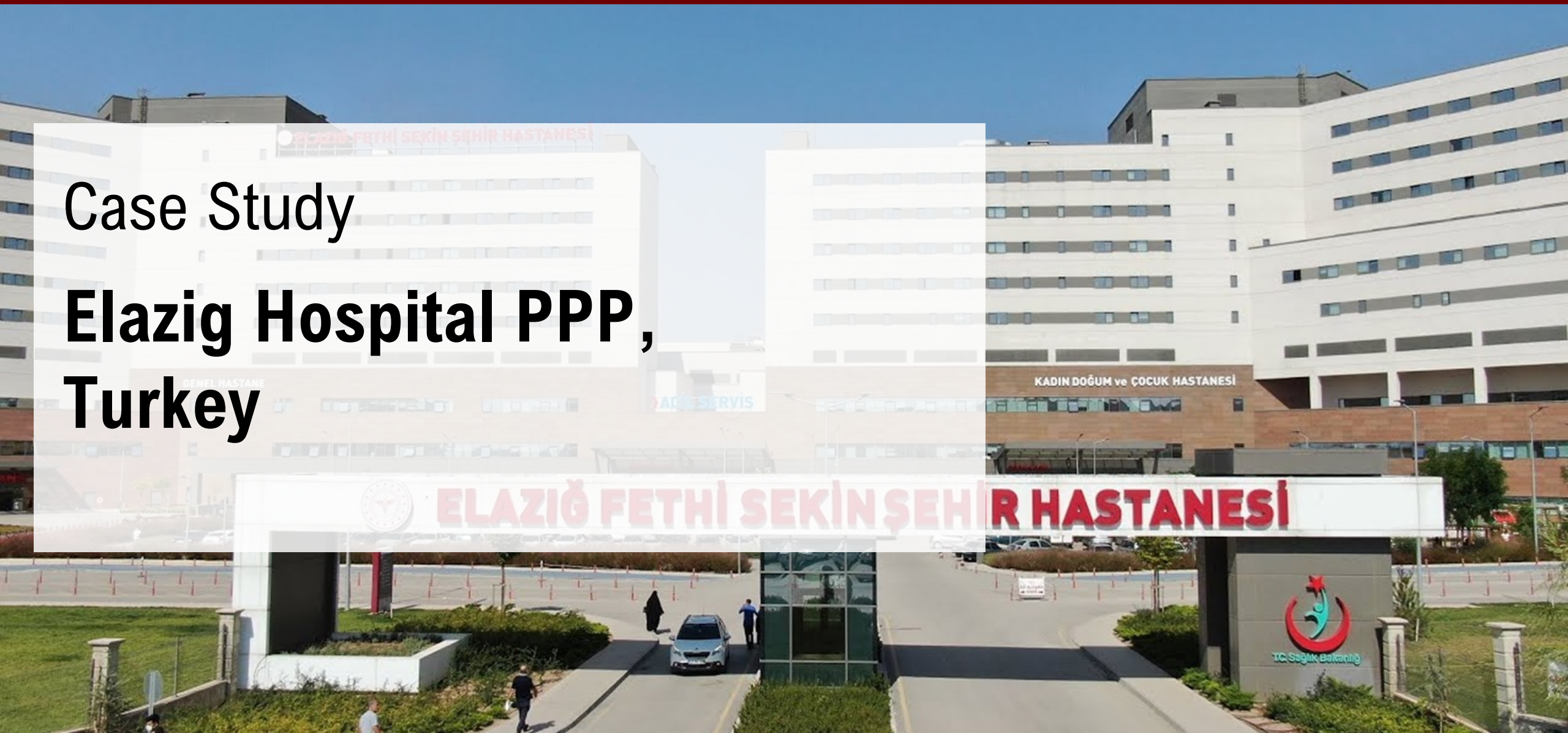


# Case Study

## Elazig Hospital PPP, Turkey



# OVERVIEW

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**The Elazig Hospital PPP Project will improve 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 provided financial support to this project.**



## BACKGROUND

**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, and the surrounding provinces. It will have more than 1,000 beds divided among 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. Yapi 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 ESG 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 Role of Multilateral Development Banks

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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



Entrepreneurial  
Development  
Bank

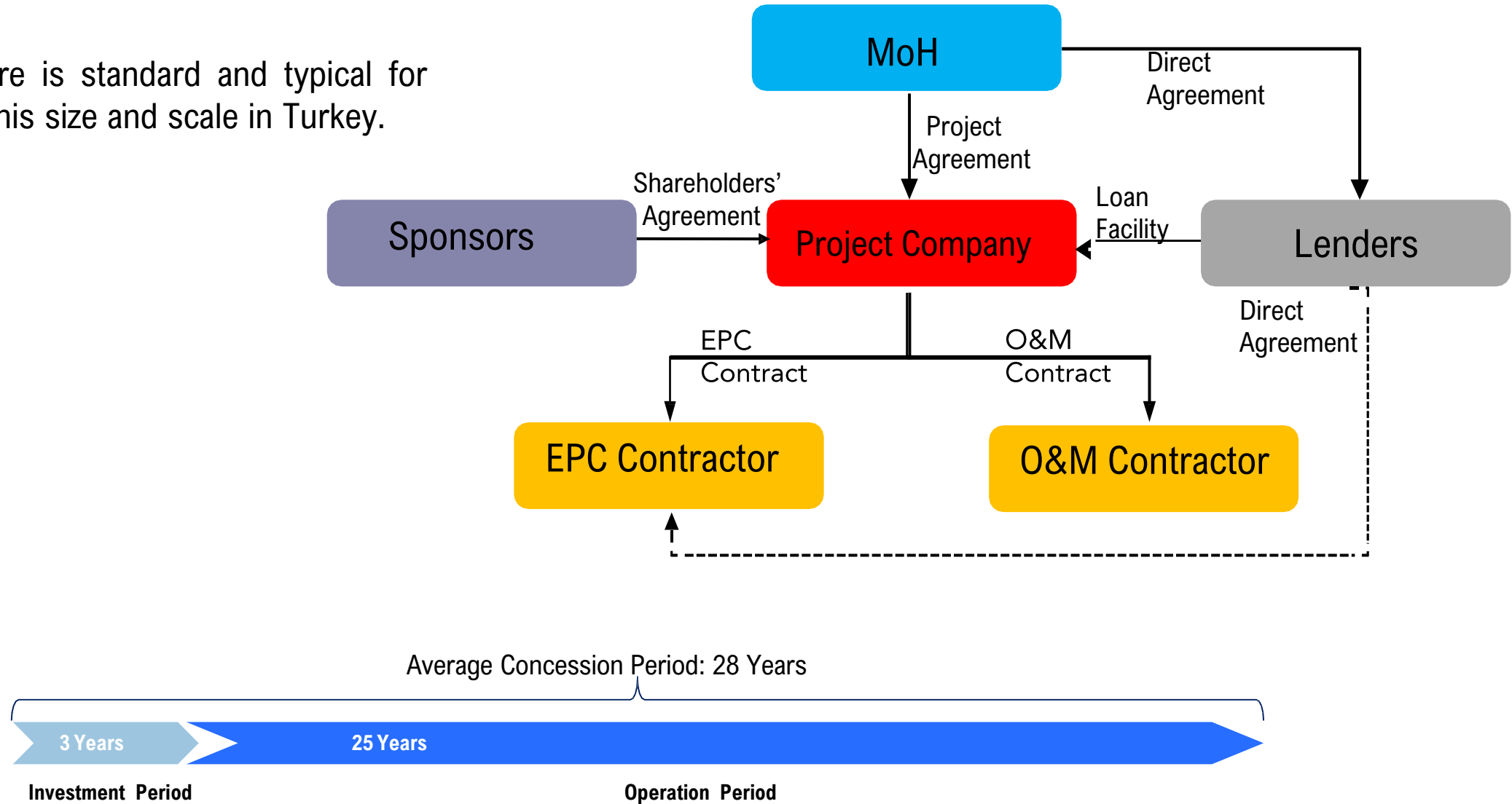


European Bank  
for Reconstruction and Development

Both the World Bank's IBRD and EBRD are assisting the Turkish 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 international finance institutions for the creation of an innovative new risk mitigation instrument.

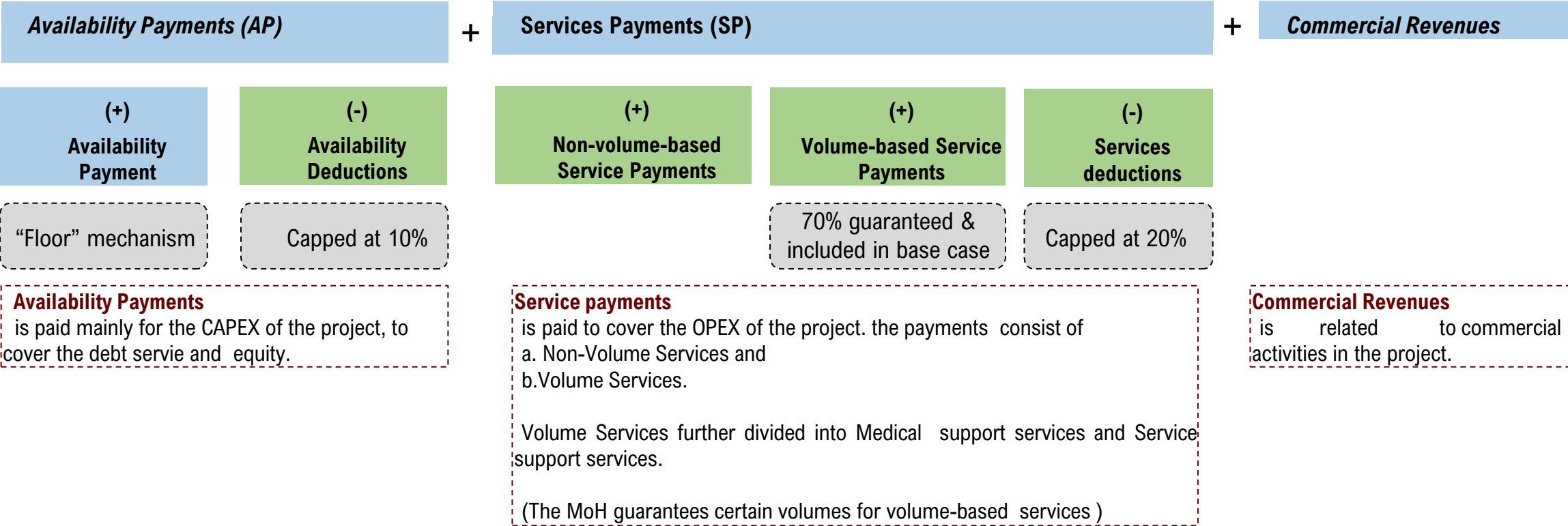
# Structure of the Hospital PPP project

This structure is standard and typical for projects of this size and scale in Turkey.



# Payment Mechanisms

The Project revenues that are denominated in Turkish lira (“TRY”) will comprise Availability Payments, Service Payments and Commercial Revenues.



# Key Attractions for Project Sponsors & Equity investors

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- Payment adjustment against Inflation and FX
- Capped Deductions (20% of Service, 10% of Availability)
- No Double Counting for Deductions and Penalties
- Market Testing for Services (every 5 years)
- Lenders sign Direct Agreements with the MoH
- Compensation at Termination for Loan & Equity
- Capped Variation Orders (1% and up to 20%)
- Protection against Change in Law
- Insurance Risk taken by MoH if insurance not available
- VAT Exemption for CAPEX
- ICC International Arbitration for Dispute Resolution



# Key Attractions for Lenders

- **Land.** PPP projects in Turkey allow free use of government-owned land and expropriation.
- **Revenue Guarantee.** Certain PPP projects provide minimum revenue guarantees.
- **Step-in Rights.** Lenders' step-in rights allow the lenders to select, with the consent of the procuring authority, a new concessionaire to perform an ongoing PPP project in cases when the initial private partner is at risk of default.
- **Debt Assumption / Termination on Compensation.** The government will pay the termination on compensation, and the debt will be fully covered in any circumstances.

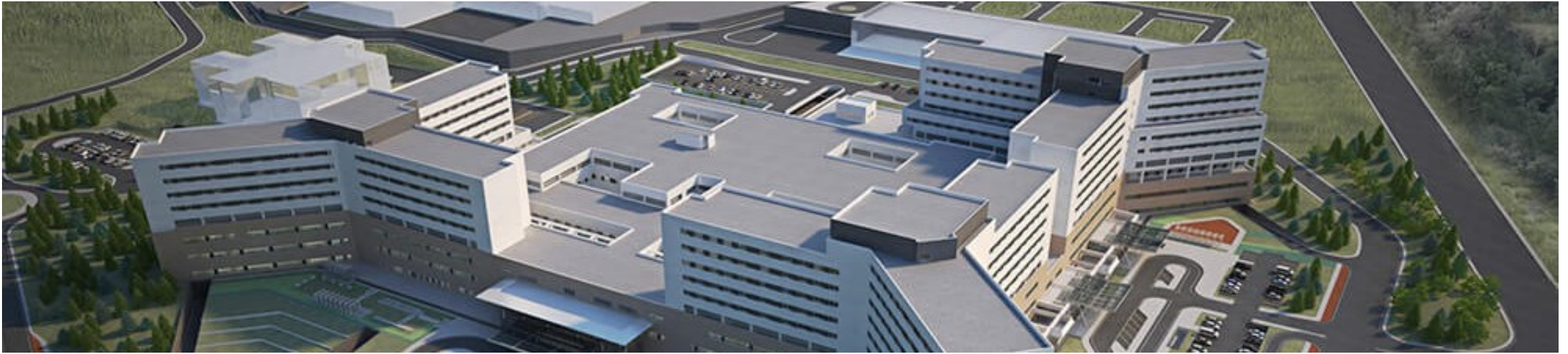
# OUTCOMES

The main expected development benefits of the project are

1. Improving patient access to high quality health services for 1.6 million people,
2. Realigning capacities with country needs
3. 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.

- How do the involvement of multilateral development banks and international financial institutions contribute to the project's success?
- How does the financial structure of the project, including debt-to-equity ratio and revenue streams, contribute to its sustainability and long-term success?
- How does Turkey's PPP program for healthcare infrastructure compare with similar initiatives in other countries, particularly in terms of legal frameworks, risk allocation, and financial mechanisms?
- What are the key lessons learned and implications for future healthcare infrastructure projects in Turkey and globally?





## IN TURKEY, THE HOSPITAL THAT IS CHANGING THE LIVES OF AN ENTIRE REGION

PUBLISHED ON 11 NOVEMBER 2019

## WORLD FINANCE

THE VOICE OF THE MARKET

REGULARS BANKING WEALTH MANAGEMENT INFRASTRUCTURE STRATEGY MARKETS VIDEOS AWAI

### Rönesans Healthcare Investment is modernising infrastructure in Turkey

Governments are increasingly using PPP schemes to source funds for infrastructure projects. Rönesans Healthcare Investment has invested in a number of these deals in Turkey

“Providing access to care, cutting-edge equipment and jobs for women in eastern Turkey, Fethi Sekin public hospital has changed the lives of thousands of residents of Elazig and the surrounding region since opening in August 2018 with AFD support.”

Source: The Proparco Group, 2019

“Rönesans Healthcare Investment has invested in a number of PPP deals in Turkey, including the Ikitelli Hospital and Elazig Hospital.”

Source: World Finance, 2018

## Key Latest Summary on the Elazig Hospital PPP

Having reached completion and started operations, key updates from the Elazig Hospital project include;

- The project is regarded as very successful, and thus has encouraged an increase in the number of PPP schemes in Turkey, as the government seeks to close its infrastructure gap.
- The hospital now provides consistent high-quality healthcare to millions of local residents in the Elazig, and Eastern Anatolia at large.
- The hospital now employs an estimated 4,500 workers, of whom 40% are women; helping contribute to gender and income parity in the region.



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