



Financial structuring for healthcare projects

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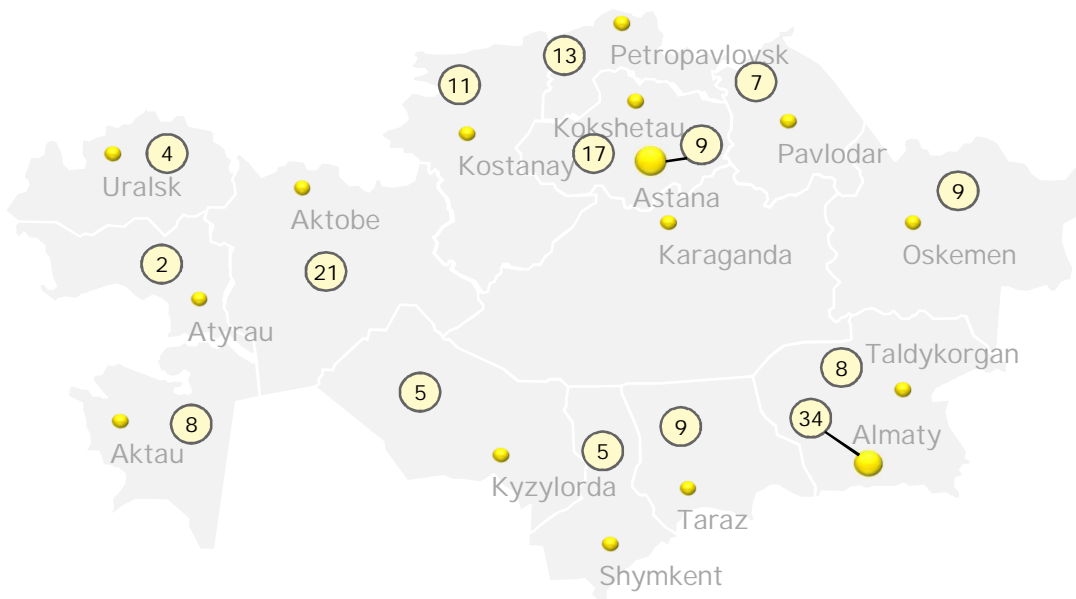


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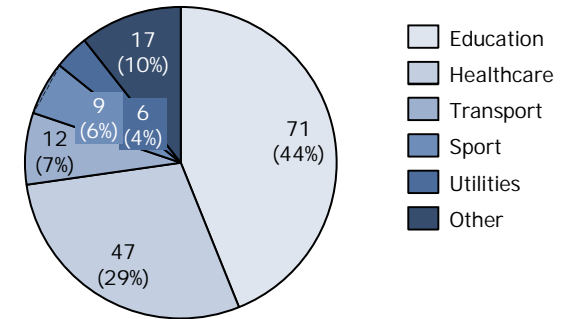
Healthcare PPP project pipeline: large number but miniscule value

Currently there are 162 PPP projects (KZT959.5b). However KZT396.3b of it is railroad in VKO with vague perspectives plus KZT110.9b is railroad project in Mangistau with similar outlook. The bulk of projects is education and healthcare infrastructure with questionable bankability.

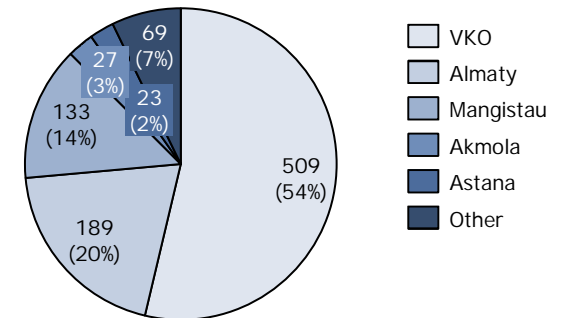
Geographical breakdown – number of projects



Industry breakdown – number of projects



Geographical breakdown – CAPEX



Only 4 out of 162 local projects are at (relatively) developed stage: Almaty LRT, Almaty LED, Bukhtarma bridge, Kyzylorda airport. Almost half of CAPEX in pipeline are 2 railroad projects (can you make PPP out of rails?).

Operational model: the model means the financing structure

Model



1 Medical services are included

- ▶ The model is suitable for private medical operators;
- ▶ Private partner is able control operational risks (provision of suitable medical services, optimization of medical model).

- ▶ Tariff issues (mandatory service vs. additional paid services, payment mechanism is uncertain);
- ▶ How to manage demand risk?
- ▶ The need for local personnel due to strict healthcare regulation system – may be the problem for some projects;
- ▶ Mixed results in UK.

2 Medical services are excluded

- ▶ Stable cash flows (in case of availability payments), the Private partner is able to raise large share of senior debt;
- ▶ Less issues with local personnel, tariffs, demand.
- ▶ Financier-led approach is possible. (IPE firm/fund as leading party plus EPC-contractor and medical equipment provider as sub-contractors / limited partners.

- ▶ “It’s not a medical project, it is a real estate project” – limited interest from medical operators;
- ▶ Private partner’s ability to control operational risks is limited;
- ▶ Complex responsibility and risk matrix (who is responsible for what);
- ▶ Budgetary constraints - PPP limits;
- ▶ Mixed results in Turkey.

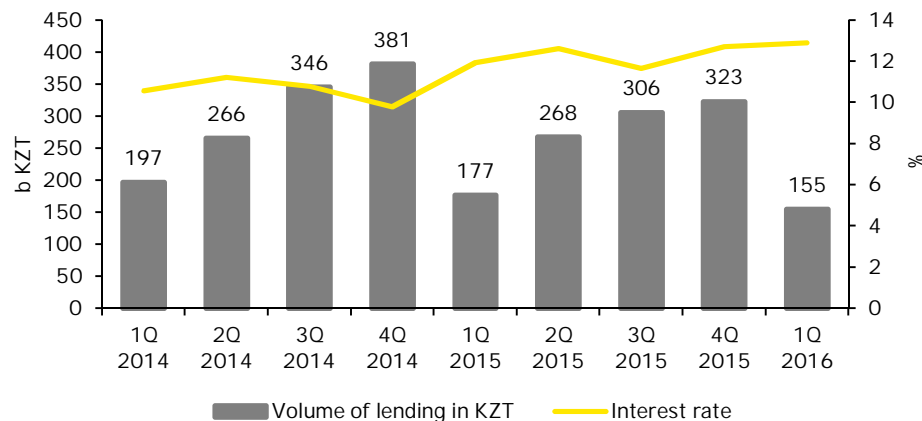
The choice of operational model for healthcare PPP projects is major concern for potential finance providers. Different structures (senior debt / junior debt / bridge financing / mezzanine / equity) should be used in different models.

Debt financing: no long-term affordable debt currently...

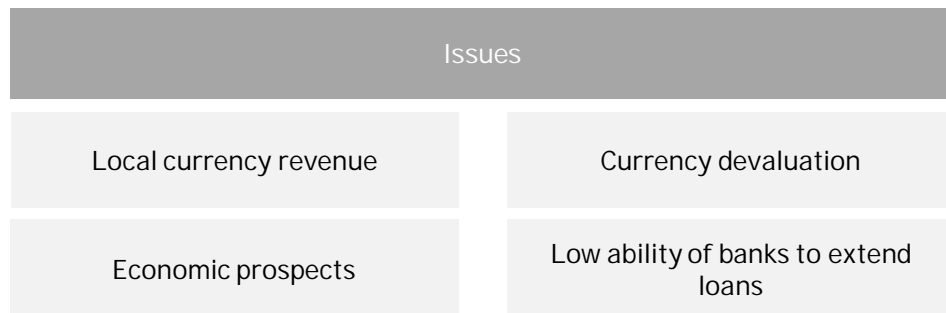
Local currency debt financing is scarce in Kazakhstan. As vast majority of infrastructure assets generate revenue in Tenge, foreign debt financing is hard to secure and is costly. In this case importance of loans from international development institution is high.

- ▶ The series of sharp currency devaluations during the past two years have driven liquidity out of Tenge. Before the current time of uncertainty is over, long-term local currency financing will remain largely unavailable.
- ▶ Governmental support for raising financing in infrastructure sector is limited. An example of governmental program supporting modernization of infrastructure assets is Nurly Zhol. The program provides cheap Tenge financing for housing and utilities infrastructure, construction of roads, etc. The program financed KZT707b (USD3.2b) in 2015. There are 99 approved projects for KZT75b in 2016.

Long-term lending to business in KZT (more than 1 year term)



Source: National Bank



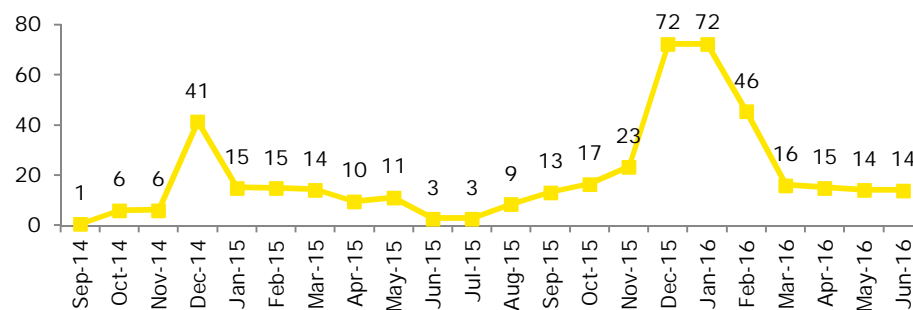
In 2015 the only who lent in Tenge to infrastructure projects was EBRD

Debt financing: ...but it can change

Limited Tenge liquidity resulted in extremely high interest rates and added to lack of debt financing.

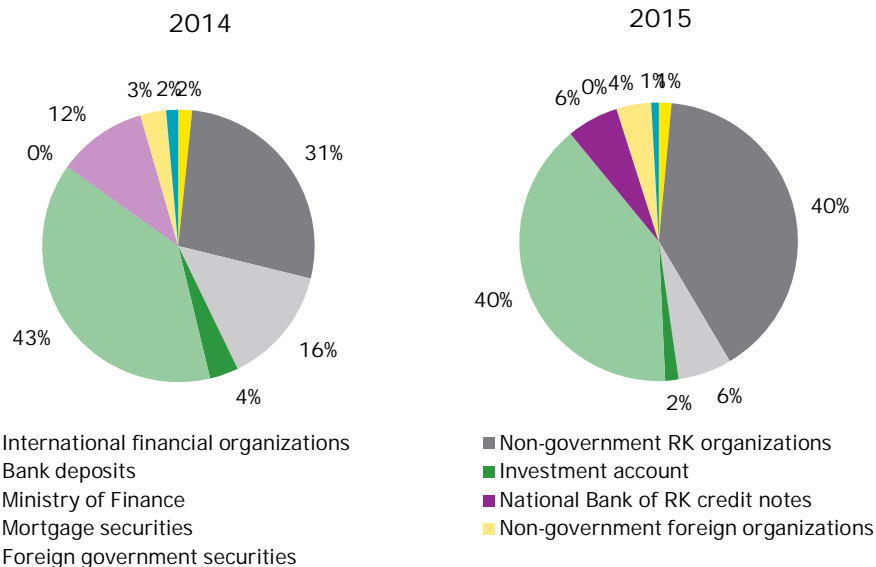
- ▶ While National Bank limited Tenge liquidity in December 2015 money market rates went as high as 300%. After National Bank started providing short-term Tenge liquidity in January 2016 interest rates decreased. However, at the same time inflation accelerated.
- ▶ National Bank of the Republic of Kazakhstan eased KZT62b of National Pension Fund (NPF) money into the banking system. This is part of KZT600b which will be invested in the 2nd tier banks and national companies in 2016. In 2015 National Pension Fund (NPF) increased considerably holding of commercial bonds.

TONIA, %



Source: KASE

National Pension Fund, structure of assets

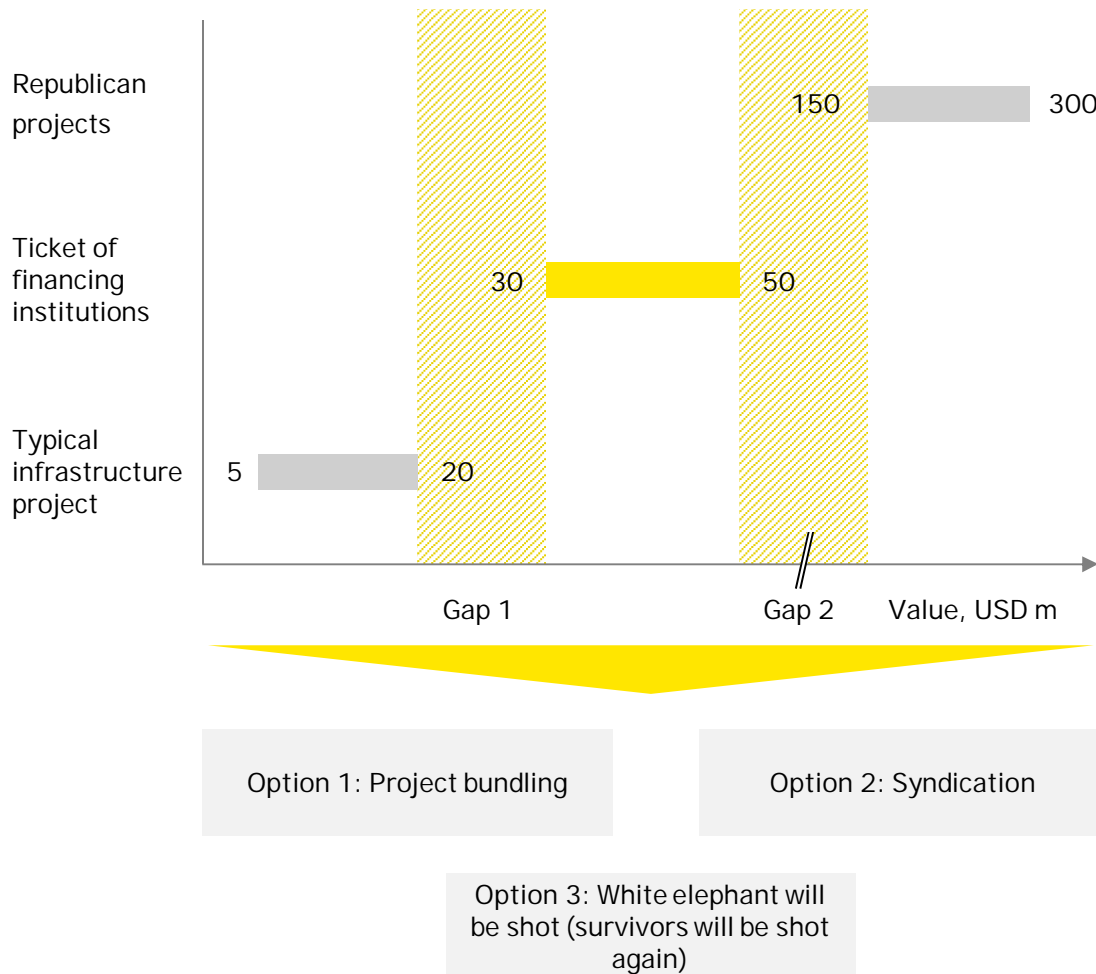


Source: National Bank

Deal size: At two extremes

Large portion of the assets have small ticket and therefore fall below radars of major foreign investors

- ▶ Majority of infrastructure projects in Kazakhstan are in the range of USD5-20m (healthcare, municipal water & wastewater, solid waste etc.).
- ▶ However the minimal ticket of financing institutions is somewhere around USD30-50m (examples: EDB - USD30m, Gazprombank - USD30-50m).
- ▶ This situation creates gap (Gap 1) between ticket and actual deal size, therefore local projects require some level of bundling which in turn could be an arduous task for local Akimats.
- ▶ On the other side of the spectrum there are number of “white elephant” projects (high-speed rail, LRT etc.) which may be too hefty for potential lenders (Gap 2). Consequently, syndication are required (A-lenders, B-lenders etc.).
- ▶ Therefore most of the projects are under radars of major infrastructure funds (like Macquarie) or too big to be sustainable in current economic reality.

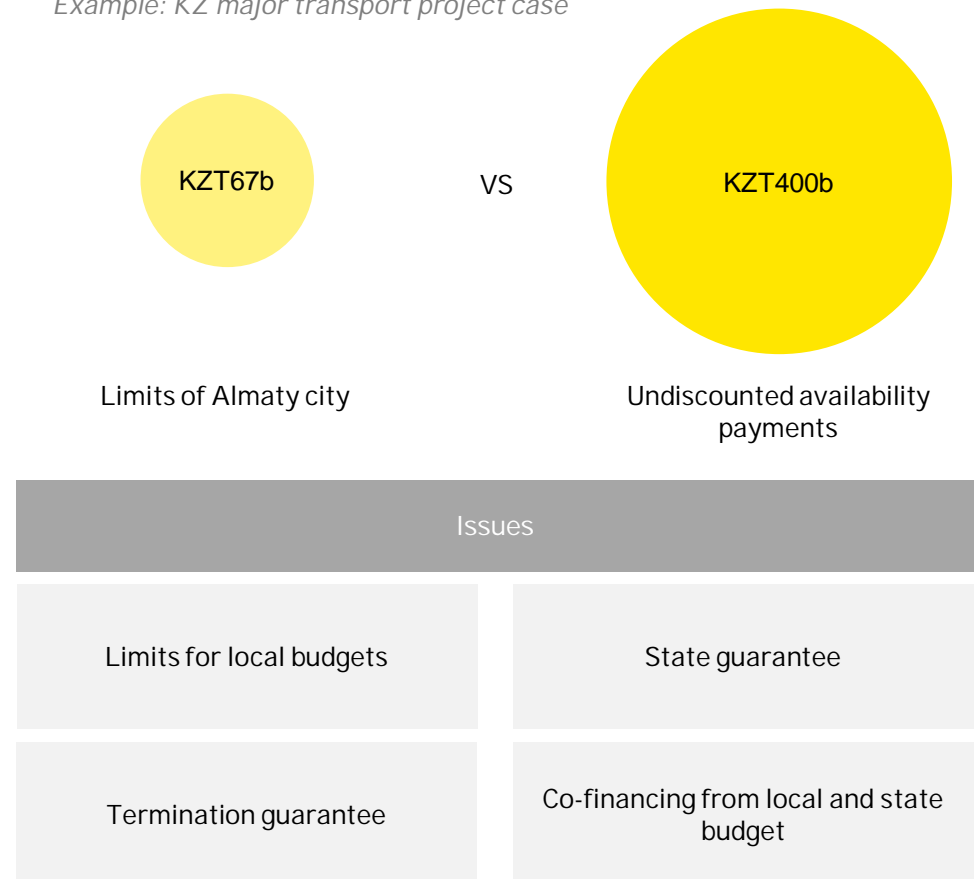


Budgetary concerns: comparing apples with watermelons

Another important piece of legislation governing PPP projects is the Budget Code which became effective on 4 December 2008.

- ▶ Ministry of National Economy sets limits for state and local budgets for the amount of obligations for PPP projects. The limits cannot be renegotiated in case if they are insufficient.
- ▶ The Budget Code does not address the possibility of exercise of state guarantees issued at the republican level to secure local PPP projects.
- ▶ The PPP Law and the Budget Code does not address necessity for termination guarantee.
- ▶ According to the Budget Code if the local executive authority does not have enough funds to finance the public partner's obligations it is unlikely to receive any additional funds from the higher level of budget.

Example: KZ major transport project case



Key financing issues

Observations

Currency risks

Severe foreign capital markets

Limited access to bank debt financing

Difficulties with equity financing

The market for infrastructure bonds is limited

Shortage of regional budget financing

Vague operational model

What should be done?

- ▶ Use all available sources of finance;
- ▶ Competitive financing;
- ▶ Early market sounding;
- ▶ Prudent risk allocation;
- ▶ Access to capital markets of Asia / Europe;
- ▶ Greater use of public financing through PPP.

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