Bhubaneswar is the capital city of Odisha, a low income state in India. While the government is operating various health insurance schemes for low income families, there is a huge deficit in health infrastructure in the city. The Ministry of Health’s flagship hospital, the 300 bed Capital Hospital, is overcrowded and struggling with over 100% occupancy at any given time. Apart from this, the Ministry of Health operates various clinics across the city, which are faced with inadequate building maintenance, frequent downtime of essential equipment and, above all, shortage of medical and para-medical staff. In support to the Ministry of Health, the Bhubaneswar Municipal Corporation (BMC) is also operating a 106 bed secondary care hospital and five clinics spread across the city. However, the condition of all the facilities is very similar to those operated by the Ministry of Health.

To resolve this issue, the BMC was keen to implement a Public Private Partnership (PPP) to augment the existing facilities it operates and to create a new multi-specialty hospital with the aim of relieving the burden on the Capital Hospital. A tender was launched in 2014 to find a private sector partner for this important project, and in September 2015, the KPC Group was selected as the private partner.

IFC’s advisory work was undertaken with financial support from the HANSHEP Health PPP facility funded by the UK’s Department for International Development (DFID).
BACKGROUND

The Government of Odisha has undertaken reforms in the health care delivery process, aiming to provide accessible, affordable, equitable, and quality healthcare services, especially to the poor and vulnerable sections of society. For this purpose, various government bodies, apart from Ministry of Health, such as BMC, operate medical facilities.

BMC currently offers primary and secondary health care through a 106 bed municipal hospital and five clinics. These facilities play a central role in the city’s healthcare system, and remain the primary source of care for a large share of the population. However, the facilities are severely underperforming and underutilized due to lack of funds and operational and management deficiencies. Therefore, BMC sought the services of the private sector through a PPP contract.

It was imperative for the BMC to leverage private sector finance and expertise in efficient operations for such wide scale expansion. The government decided to upgrade 5 clinics and develop a Greenfield multispecialty hospital to provide the complete spectrum of primary, secondary, and tertiary healthcare services. For providing primary care, one clinic would be upgraded to a health center with at least 10 beds, while three other clinics would be upgraded to health centers with at least 30 beds at each center. For providing secondary healthcare services, the one remaining clinic would be converted into a 100 bed hospital. The Greenfield multi-specialty hospital would have at least 300 beds and would provide tertiary care services.

IFC’S ROLE

IFC’s PPP transaction advisory team was engaged by BMC to help formulate the PPP transaction structure, prepare the tender documents, and conduct a competitive and transparent bid for selecting a private operator. A tripartite agreement was signed between IFC, BMC, and the Department of Housing and Urban Development, the overarching department under which BMC operates.

IFC conducted detailed technical, financial, environmental, regulatory, and legal due diligence and provided recommendations on financing mechanisms, risk allocation, and the design of the tender process, including preparing the tender documents.

TRANSACTION STRUCTURE

The project includes developing at least 500 beds in the network. BMC will provide the land and existing structures unencumbered for the period of the contract, empanel all facilities with the social insurance schemes, and ensure that utilities are available at all facilities in the network. The private partner will design, refurbish and upgrade the dispensaries, develop the Greenfield multi-specialty hospital, procure and install equipment, and staff, maintain, and operate the network for a period of 34 years. The total estimated capital expenditure of the project is around USD $35 million.

The key terms of the transaction ensured that there is bare minimum out of pocket expenditure for poor and underprivileged patients. Another key term of the contract was that the concessionaire and BMC would integrate their Hospital Management Information Systems, so that data required for public health statistics were transmitted to the Ministry of Health.

A unique bidding parameter was used under which the bidders had to propose the number of beds they commit to develop at each facility and the percentage of services they would provide at each facility. This was done to ensure the dual purpose of creating infrastructure as per the capacity of bidders and to maximize services for poor and underprivileged patients.

BIDDING

After a transparent and competitive bidding process, a private partner with extensive experience operating hospitals and health insurance in India and the United States of America, KPC Group of companies, was awarded the project. KPC Group committed to build 740 beds in the network and provide free or subsidized services for poor and underprivileged patients, which included free Outpatient and about 19% of Inpatient services at subsidized tariff to government, but no out of pocket expenditure to the patients. The Concession agreement was signed between KPC group and BMC in September 2015.

EXPECTED POST-TENDER RESULTS

- At least USD $35 million in private investments.
- Improved healthcare services to the general populace.
- About 2 times Increase in Outpatient services.
- About 15 times increase in Inpatient services.
- Fiscal savings of about INR 15 million each year.