This is a new section of the Public-Private Partnership Resource Center website and is currently in draft form. Your feedback is welcome: If you would like to comment on the content of this section of the website or if you have suggestions for links or materials that could be included please contact us at ppp@worldbank.org.

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Construction of District Hospital, ?ywiec, Poland

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On this page: *Challenging Case: Construction of District Hospital, ?ywiec, Poland. Find more at the Municipal Public-Private Partnership Framework - Project Summaries section for brief summaries of around 100 projects from around the world, examples of successes and challenges, as well as innovative ideas on solutions, or visit the Guidelines on Innovative Revenues for Infrastructure section.*

Project Summary:

Background

The City of ?ywiec, with help from Poland's National Health Fund (NFZ), decided to pursue a PPP to build a new hospital to replace an existing, 100-year-old hospital. The new hospital would be constructed according to European Union (EU) technical and sanitary standards, as required by EU regulations. In addition to the new facility, the City aimed to benefit from a transfer of skills and knowhow by partnering with a qualified private company.

Project Structure

The public authorities solicited bids and initiated a competitive dialogue with nine bidders interested in the project. However, only one of the nine bidders would agree to invest in the project if it did not include availability payments from the government. In 2011, the PPP contract was awarded to this bidder, InterHealth Canada Ltd., for a duration of 30 years. The private partner is obliged to design, finance, construct, and supply equipment to the new hospital. It is further responsible for the day-today maintenance and management of the facility, as well as providing healthcare services.

The capital investment value was estimated at EUR 35 million (USD 40 million), with the cost of the required hospital equipment estimated at an additional EUR 17 million (USD 19 million). The project was to include the construction of a hospital with 18,000 m2 of usable area and equipped with 340 beds. The City would provide the necessary land to the private partner and construct a new access road for the hospital.

The project was financed by an equity contribution from the private partner, amounting to about 25 percent of the total investment cost, a long-term loan from the European Bank for Reconstruction and Development (EBRD) of EUR 10 million (USD 11.3 million), and loans from several commercial banks, including FM Bank PBP and Alior Bank, which agreed to co-finance the project with the EBRD.

The private partner would receive payments from the NFZ, not the City, based on a separate contract with NFZ for InterHealth's provision of healthcare services. Payment would be mainly based on the volume of services provided (e.g., number of patients treated, procedures carried out). The payment was expected to

total about USD 14 million over the course each one- to three-year term of the agreement. The contract with NFZ could be renewed, but the renewal was not guaranteed. In addition, the City would be responsible for monitoring the quality of services and the efficiency of the facility.

The private partner is expected to recoup its investment through its contract with NFZ as well as through potential, additional commercial medical services. To help the private partner to achieve its target, the City agreed not to allow any other entity to provide medical services in the area.

Lessons Learned

Construction of the project started in 2015 and was expected to finish by the end of 2018. However, no further publicly available information was found regarding the status of this project.

The project was set back by long delays arising from a number of risks. First, significant financial risk arose from the mismatch between the short duration of the contracts with NFZ, which were one- to three-year agreements at most, with no guarantee that another deal would be concluded; and the long-term, 30-year duration of the PPP agreement. There would otherwise be no minimum guaranteed payment or availability payment, nor any guarantee for the financing obtained by the private partner. Consequently, the private partner had difficulty acquiring loans.

Second, the governing law provided that investments in hospitals are the responsibility of district authorities. Nonetheless, it was the NFZ that made the public investment in this project, giving rise to political and organizational risks.

Finally, the private partner chose to start preparation and construction work before reaching financial close, to show its commitment to the project. Accordingly, the completion of the hospital would be at risk of being discontinued if the private partner was unable to secure the required financing.[1]

Footnote 1: Source(s) https://www. cliffordchance.com/ briefings/2013/03/ ppp_projects_in_ thehealthcaresector. html accessed 11 January 2019

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The Guidelines on Innovative Revenues for Infrastructure (IRI) is intended to be a living document and will be reviewed at regular intervals. They have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions.

To find more, visit the Innovative Revenues for Infrastructure section and the Content Outline, or Download the Full Report. For feedback on the content of this section of the website or suggestions for links or materials that could be included, please contact the Public-Private Partnership Resource Center at ppp@worldbank.org.

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