

## Success Stories

PUBLIC-PRIVATE PARTNERSHIPS

*This series provides an overview of successful public-private partnerships in various infrastructure sectors, where IFC was the lead advisor.*

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Health



# Brazil: Hospital do Subúrbio

Brazil's first public-private partnership (PPP) in health will dramatically improve emergency hospital services for one million people in Salvador, the capital of the state of Bahia. Located in one of the most underserved districts, the Hospital do Subúrbio is the first state hospital construction in the Salvador metropolitan area in 20 years. The transaction closed on May 28, 2010 and construction was completed in July 2010.

A consortium composed of Promedica, a leading Brazilian regional health care company, and Dalkia, a French company specializing in facilities management and non-medical services, won the bid. The concessionaire will be responsible for equipping, maintaining, and operating both clinical and non clinical services at the hospital for a term of ten years, and has committed to meet the highest technology standards. Promedica & Dalkia is expected to invest approximately \$32 million to equip the hospital over the life of the concession, with investments totaling \$22 million in the first year alone.

The Brazilian Private Sector Partnership Program, a partnership between IFC, the Brazilian Development Bank (BNDES), and the Interamerican Development Bank (IDB), provided support for the advisory work.



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## BACKGROUND

Hospital do Subúrbio is located in the state of Bahia, in northeast Brazil. The country is characterized by widely diverging income levels which can vary greatly across the different regions, cities and neighborhoods. Consequently, access to and quality of health care are also inequitable. Citizens with high income levels have access to high-quality private health services, whereas those with the lowest incomes can only rely on public services which are oftentimes poorly equipped and serviced, as well as overwhelmed with demand.

According to the United Nations Development Program, the Subúrbio Ferroviario district of Periperi, where the hospital is located, ranks much lower than the rest of the city and the country in the Human Development Index (0.813 for Brazil, 0.79 for Salvador and 0.668 for Periperi).

Since 1988, the Brazilian constitution has guaranteed access to medical care for all. Therefore the objectives of the government of Bahia for this public-private partnership were to ensure that all its population had access to high-quality emergency health services, while also establishing a new benchmark within the public health system that could be replicated throughout the state and the country.

## IFC'S ROLE

In April 2009, the Government of Bahia engaged IFC to implement a public-private partnership for the Hospital do Subúrbio, which was already under construction. IFC assisted the government on all aspects of the PPP structuring, including performing technical studies and feasibility analysis, structuring the transaction, drafting the legal documents, conducting the road show, and implementing the bidding process. The transaction followed best market practices and was completed in 14 months.

## TRANSACTION STRUCTURE

The project was structured as a ten-year concession contract, transferring the hospital's operation and management—including clinical and non clinical services—to the private partner. The concessionaire also has the responsibility of equipping and maintaining the hospital, ensuring that technology standards meet those of the best private hospitals in the country. The concession contract can be renewed for an additional 10 years.

The transaction was structured in such a way that payment to the private partner will be linked to key performance indicators based on quantitative and qualitative targets, thus creating the right incentives for high levels of performance. Thirty-one different qualitative performance indicators were established, including the requirement to obtain accreditation for the hospital within 24 months from the start of operations. In addition, the contract requires regular auditing of all performance indicators by a qualified company, as well as auditing of financial statements in compliance with the highest Brazilian standards. Moreover, a

payment mechanism was established to mitigate the government's credit risk, thus increasing private sector interest and the possibilities of financing for the project.

The 298-bed facility will provide traditional emergency care as well as specialized treatment for trauma, orthopedic and cardiac emergencies, and other complex injuries. The hospital will include a surgical center, a clinic, medical laboratories, a physical therapy unit, a hemodynamics unit, and a pharmacy.

## BIDDING

Following the auction which took place on the São Paulo Stock Exchange, ensuring high transparency, the Promedica & Dalkia consortium was declared the winner. The consortium is composed of Promedica, a leading healthcare company in the northeast of Brazil, and Dalkia, a French company specializing in facilities management and non-medical services. This was the first time that a health PPP was bid on a stock exchange.

Promedica & Dalkia is expected to invest approximately \$32 million over the life of the concession, with investments totaling \$22 million in the first year alone.

## POST-TENDER RESULTS

- The transaction will serve as new business model for providing health care to an underserved region, and is expected to be replicated in other regions of Brazil.
- The new hospital will dramatically improve the quality of health care for the poorest people in the city of Salvador.
- One million people will benefit from high-quality emergency services within their own district.
- The hospital will create 1,600 new jobs.
- The hospital will treat 175,000 patients annually.