

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.

IFC Advisory Services in
Public-Private Partnerships
2121 Pennsylvania Ave. NW
Washington D.C. 20433
ifc.org/ppp



Health



Photo © IFC

Mexico: Toluca and Tlalnepantla Hospitals

Outdated hospital facilities meant long lines and substandard care for the citizens of Toluca and Tlalnepantla, two densely populated areas in Mexico. Private sector best practices and investment were needed to improve health services to patients and users. To achieve this, the government hired IFC as lead advisor to the state's Social Security Institute, a health insurer, for an innovative public-private partnership for two new 120-bed hospitals.

The new hospitals will replace outdated facilities and provide patients with improved services while creating a business model for optimal health care in the state. Hospital operations are expected to be complete by June 2012 and the two hospitals combined will serve a population of about one million.

The contracts were signed in October and November 2010. In Toluca, the contract was awarded to the Promedex consortium, which will invest \$60 million on construction and equipment during the one-year period following completion of the final design. In Tlalnepantla, the contract was awarded to Marhnos, a privately held group. It is expected that Marhnos will invest \$60 million in construction and equipment during the one-year period following financial closure.

IFC received donor support from the Catalonia IFC Trust Fund, which funded the development of the PPP Transaction Structure Report.



BACKGROUND

Public health care, fully or partially subsidized by the federal government, is provided to all Mexican citizens. But Mexico lags behind other comparable countries in health status and health care availability. Public hospitals account for the majority of hospital beds; most private hospitals accommodate fewer than 20 inpatients.

An expanded and modernized health care system was needed in Toluca, the capital of Mexico State and center of a rapidly growing urban area. Its geographic position and proximity to Mexico City created a major industrial zone in Toluca, but health care accommodations did not meet peoples' needs. Likewise, in Tlalnepantla, whose industrial zone is one of the largest in the country, the lack of a modern public hospital forced residents to seek care elsewhere, or manage without critical services and facilities.

IFC'S ROLE

IFC advised the Social Security Institute on the structure and implementation of a public-private partnership for the design, construction, capital financing, and management of two new public hospitals in Toluca and Tlalnepantla. IFC also introduced new "pay-for-performance" funding for hospital providers to improve the state health insurer's financial position and secure better results for patients. This model was designed to serve as an example for other states to replicate. The contracts allow for greater transparency in a context where public bidding still lacks transparency. This transaction, therefore, increased market confidence.

TRANSACTION STRUCTURE

In phase one, IFC conducted an assessment of the existing local health care facilities and services to determine the optimal type, location, and size of the new facilities. In phase two, IFC prepared the tender and contract documents, conducted prequalification, and assisted in conducting the bidding process.

Under the contracts, the following responsibilities will be transferred to the private service provider:

- Dialysis, imaging, gasses management and lab services.
- Equipment installation and maintenance over 25 years.
- Equipment consumables over 25 years.

Payment is based on a clear performance-based mechanism which will improve the quality of service for patients. This also improves the financial position of the state's Social Security Institute by reducing the hospital's overall costs by one-third.

By reinforcing the concept of buying services instead of assets, IFC structured a second generation of PFI contracts for social infrastructure in Mexico called "PFI+." With this model, the state will be responsible for the hospitals' doctors, nurses and medical supplies, while the winning bidder will oversee construction and

provide facility and equipment management as well as delivery of most of the diagnostic services for the 25-year duration of the contracts. These PFI+ contracts will assure that the hospital remains in excellent physical condition and guarantees that diagnostic services will be available for the life of the contract.

The contract is also structured to be environmentally conscious. Silver LEED certification requirements will have to be met for the construction and operation of both hospitals. This will result in energy savings of at least 20 percent, compared to a traditional hospital in Mexico. These buildings and hospital operations are the first elements of a "green" social infrastructure in Mexico, creating a model for future development. The hospitals are expected to contribute to emissions reductions by about 10 tons of CO2 equivalent per year.

BIDDING

The Toluca contract was awarded following a competitive bidding process that included three consortia representing 11 companies, while the Tlalnepantla bidders included four consortia representing 15 companies.

The contract for the new General Hospital of Toluca was awarded to a consortium led by Prodemex. The Prodemex consortium is made up of Promotora y Desarrolladora Mexicana, SA de CV; Promotora y Desarrolladora Mexicana de Infraestructura, SA de CV; and Desarrollo de Hospitales PROAN, SA de CV.

The contract for the new General Hospital of Tlalnepantla was awarded to a consortium led by Marhnos. The Marhnos Group consortium is made up of Marhnos Construcciones, SA de CV; Marhnos Turismo, SA de CV; Inmar del Noreste, SA de CV; Proyectos Inmobiliarios, S de R.L.

EXPECTED POST-TENDER RESULTS

- At each hospital, the partnership will deliver enhanced medical services to over 10,000 inpatients annually. The two hospitals combined will serve a population of about one million people in a formerly underserved area.
- Estimated additional services to be provided to outpatients include over 180,000 consultations, 3000 surgeries, and 7,000 dialysis treatments per year per hospital.
- The overall cost of the hospitals' operations were cut by one-third and attracted private investment of \$120 million.
- The hospitals are expected to contribute to emissions reductions by about 10 tons of CO2 equivalent per year.