

INTERVIEW

Supporting the First Case of a Japanese Company's Participation in a Hospital PPP Project in Turkey

Provision of project financing and political risk guarantee

Interview with Director Takayuki Sato, Deputy Director Ryo Ishizuka and Aoi Suzuki of Division 1, Corporate Finance Department, Industry Finance Group*



Director Sato, Deputy Director Ishizuka, and Miss Suzuki

JBIC provides project financing and political risk guarantee for hospital PPP project in Turkey

The Japan Bank for International Cooperation ("JBIC") signed a financing agreement on a project finance basis to provide up to approximately 81.3 billion yen (JBIC portion) of financing related to Istanbul's Ikitelli hospital PPP project (construction of the hospital and operation and management of non-medical services for a period of 25 years) led by IPSY, in which a Turkish construction company Ronesans Holding A.S. and Japanese company Sojitz Corporation hold equity ownership.

The loan is co-financed by Sumitomo Mitsui Banking Corporation, Nippon Life Insurance Company, MUFG Bank, Ltd., Standard Chartered Bank Tokyo Branch, The Dai-ichi Life Insurance Company, Limited, and The Iyo Bank, Ltd., and the total amount of the loan is 163 billion yen.

JBIC also provides a political risk guarantee for a portion of the loan co-financed by private financial institutions, and the remaining portion will be insured by Nippon Export and Investment Insurance.

*The titles are at the time of project approval.



Providing support for the operation of the largest general hospital in Turkey

Growth in Turkey's population and economy has led the government to implement a plan to build 30 national hospitals in the country. To facilitate the plan, the government promotes hospital projects under a PPP scheme to enlist the power of private sector. Notably, in 2013, the government enacted a law to alleviate the financial burden and risks borne by private institutions and built a framework to balance risks between public and private entities, thereby encouraging new entrants from the private sector. As a result, several projects have already been launched.

Takayuki Sato explained, "This project is the 15th under the government's plan. Its purpose is to build and operate Turkey's largest general hospital. Called Ikitelli Hospital, it will have 2,682 beds and be located in Istanbul. Responsible for the construction of the hospital will be IPSY, a corporation in which Turkish construction company Ronesans Holding A.S. (Ronesans) and Sojitz have equity ownership. Upon the opening of the hospital, the Ministry of Health of Turkey will provide medical services, and IPSY will operate and manage the hospital facility for a period of 25 years under a PPP scheme.

JBIC received the request for financing in January 2015. Accordingly, we started discussing the provision of support for this project, in which a Japanese company is engaged in operation and management as an investor. We believe this could bring about an opportunity to share Japan's expertise in hospital operation with the world."

Coordinating JBIC's first financing for a hospital PPP project

The Turkish government placed particular importance on building a large general hospital in the country's largest city of Istanbul, with expectations to open the hospital as early as possible.

Ryo Ishizuka stated, "It was a battle against time because we wanted to deliver on their expectations. In a previous hospital-related project, JBIC co-invested with Japanese companies in Sakra World Hospital, which opened in 2014 in India. But we have never invested in the hospital business through PF before. Ikitelli Hospital's medical services were to be provided by Turkey's Ministry of Health, and IPSY's roles were limited to operation and management of the hospital facility. However, we needed to identify medical risks that were unique to a medical

project, and carefully determine if such risks were isolated from IPSY's operations. Consequently, we conducted due diligence while incorporating the knowledge of outside advisors, and visited Turkey to conduct interviews with government officials and Ronesans to gather information. We effectively identified the project's intrinsic risks by using our knowledge of infrastructure project financing and by comparing risks with our past projects.

Sojitz is the sponsor in Japan. The company

JBIC signed, in July 2017, a loan agreement for project finance (PF) amounting up to approximately 81.3 billion yen (JBIC portion) of financing in relation to a hospital Public Private Partnership (PPP) project led by a Turkish corporation, Istanbul PPP Saglik Yatirim A.S. (IPSY), in which Sojitz Corporation (Sojitz) participates. The loan is co-financed with private financial institutions. JBIC also provided a political risk guarantee for part of the portion provided by private financial institutions.

Under this project, IPSY will construct Turkey's largest hospital, to be located in Istanbul. The hospital will be operated and managed by IPSY for a period of 25 years under a PPP scheme. This is JBIC's first case of supporting a hospital PPP project.



had also never been involved in a hospital PPP, so we had numerous discussions to make the financing possible. Sojitz showed a strong passion in establishing the project's implementation structure, including the launch of a department specializing in medical infrastructure."

At the end of 2016, Aoi Suzuki took charge of credit review of Ronesans, which is the biggest investor of IPSY and the main entity responsible for the construction of the hospital.

Aoi looks back on that time by saying, "Ronesans is highly regarded in Europe and has taken on multiple hospital PPP projects. Regardless, we thoroughly reviewed its financial structure and ability to execute the project according to JBIC's criteria. We also tried to coordinate financing documentation quickly to meet the expectations of the Turkish government. It was also important to keep the co-financing institutions aligned, as multiple banks and life insurance companies were involved."

President Erdogan attends the signing

Turkey's President Erdogan paid a visit from the capital city of Ankara to attend the signing ceremony held in Istanbul on July 21, 2017.

Takayuki Sato explained, "More than ten hospital PPP projects are currently under way in Turkey. They are drawing attention within the country, and also from countries in Asia and Europe that are seeking to enhance their medical infrastructure. This project has great significance for Japan, as the government focuses on global market entry and international contributions under the "Health and Medical Strategy" and "Investments for the Future Strategy 2017." This involves promoting the application of Japanese medical services overseas and providing support for the establishment of local medical institutions operated by Japanese companies. JBIC will continue to provide support for medical projects in which Japanese companies participate."

Aoi Suzuki, who also attended the signing ceremony, told us she felt a great sense of gratitude from Turkey as President Erdogan gave a speech. She stated, "The construction of Ikitelli Hospital is scheduled to be completed in 2020. We will follow up on the progress and hope it will become a model case for hospital-related financing conducted by JBIC."

