



# Public-Private Partnership Impact Stories

## India: Jharkhand Pathology Services



The State of Jharkhand is one of the poorer states in India with 30 million people. The Public health infrastructure in the state, which serves the majority of the population, faces severe capacity constraints, a challenge aggravated by a nearly complete absence of critically needed diagnostic services. According to the Government of India, in 2012 there was a 95% shortfall of specialists, 33% shortfall of laboratory technicians and an 84% shortfall of Radiologists in the State's district and smaller hospitals. The Government of Jharkhand (GoJ) sought to strengthen its public health infrastructure by setting up modern diagnostic centers, offering both Radio-imaging and Pathology services in all 24 District Hospitals (DHs) and three Medical Colleges (MCs) across the state serving mainly the small towns and rural areas of the state. IFC assisted the GoJ in structuring a 'Hub and Spoke' PPP model to develop Pathology diagnostic centers across the state.

After competitive bidding, the project was awarded to Medall Healthcare Private Limited and SRL Limited, which are some of the most reputed and largest players in the diagnostics sector in India. The concession agreements were signed with SRL and Medall on April 30, 2015 and May 8, 2015 respectively, and the developers are expected to start operations within 9 months. The two diagnostic service chains will be responsible for financing, equipping, operating and maintaining state of the art pathology laboratories across Jharkhand, and providing quality services to its citizens.

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

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## BACKGROUND

Jharkhand, a low income state in eastern India, faces a significant shortfall in public health delivery services aggravated by a severe lack of Diagnostic services. The lack of quality and standard diagnostic services forced people to either forgo them or purchase services from private facilities of mostly poor and varying quality, while incurring heavy out of pocket expenses and additional costs related to travel and over-testing.

To address these long standing issues, and driven by a desire to provide equitable access to quality and affordable diagnostic services to its residents, the Department of Health, Medical Education & Family Welfare of the Government of Jharkhand proposed to set up advanced pathology diagnostic centers in all the 24 district headquarters hospitals (DH) and three medical colleges (MC) in the state. It sought support from IFC to structure and implement the Pathology centers through a Public Private Partnership (PPP).

## IFC'S ROLE

IFC served as lead transaction advisor to Government of Jharkhand to select private operator(s) under a PPP model to develop and operate a state wide network of modern and advanced Pathology centers utilizing advances in diagnostic services, information technology and logistics management. IFC's role included technical, legal, and analytical support including:

- Conducting a detailed technical study to assess the demand and supply of Diagnostic services, availability of infrastructure facilities in the state to house new services, determine the Pathology services to be rolled out and status of old as well as new district hospitals and private healthcare facilities to determine the centers' ideal locations
- Reviewing social, legal, and commercial issues related to the project to identify and assess impediments and/or constraints that could affect private sector participation under different contractual schemes and financial arrangements, and to design a risk allocation framework.
- Leading discussions with potential investors to gauge commercial viability of the project, investor interest, and enable optimal project structuring.
- Managing the bid process, including preparation of bid documents and evaluation of bids.
- Assisting the Government of Jharkhand with building capacity to monitor compliance with the PPP contracts.

## TRANSACTION STRUCTURE

The Pathology project involves developing 25 Pathology Laboratories (Labs) on a 'Hub and Spoke' model in all the DHs and MCs across 24 districts divided into two clusters of 12 districts each. The two cluster approach was designed to share the implementation risk among two operators, while ensuring that the projects were of sufficient size to ensure economies of scale and a balance between provision and affordability of pathology services.

Each cluster will be implemented as a separate project under a 10-year design, build, finance, operate, and transfer (DBFOT) concession. Under the concession contract, all major pathology tests will have to be mandatorily accredited by the National Accreditation Board for Testing and Calibration Laboratories (NABL) to ensure quality.

The bid parameter was the annual premium to be paid by the Selected Bidder (Developer) to the Government of Jharkhand. In lieu, the Developer will be permitted to charge highly discounted Central Government Health Scheme (CGHS) rates to the patients. The payment (at CGHS rates) for patients specified by GoJ as poor patients (Select Patients) will be made by the Government of Jharkhand. Through this project, vital health services will be opened up in various districts, improving both access and quality, and supporting future improvements in state-wide health infrastructure.

## BIDDING

The bid was a single-stage, two envelope process. The bid documents were issued by the Health Department, GoJ on October 2014. Overall nine bidders expressed interest and purchased the bid documents for the two pathology projects. Two bids were received for each of the clusters in December, 2014, and based on the technical evaluation done by the Department of Health, Medical Education and Family Welfare, Medall and SRL were found to be technically qualified. The Financial Bids were opened in February 2015. Based on these bids, the Project Steering Committee awarded one cluster each to Medall and SRL. The concession agreement between Government of Jharkhand and SRL Limited was signed on April 30, 2015 and between Government of Jharkhand and Medall Healthcare Private Limited was signed on May 8, 2015.

## EXPECTED POST-TENDER RESULTS

- Mobilize about US\$2 million of private sector investment.
- Generate an annual concession fee of \$360,000 for the state government.
- Improve access to better pathology services to 3.5 million people, which is key for better primary and preventive health care.
- Increase the existing number of organized labs operating in India by about 5%.

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