



Case Sharing

ADB Loan Project: Elderly Care Comprehensive Service PPP Demonstration Project in Yichang, Hubei

September , 2022

Table of Contents

Project Background

Key points and Difficulties of Project Implementation

Project Background

Yichang ECS Market Information

- Yichang achieved a regional GDP of RMB 502.269 billion in 2021 with a YoY growth rate of 16.8%, ranking the third in Hubei Province.
- By the end of 2021, 24.95% of the population (nearly one million elderly people) will be over 60 years old, which is much higher than the national average.

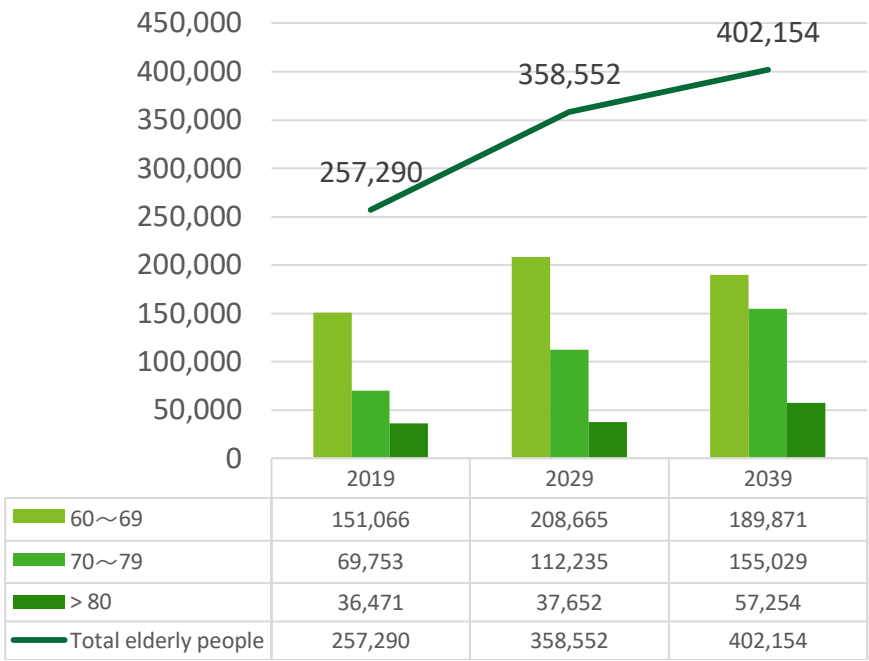
Yichang Background:

Year: 2021

- Population of the whole city: 4.0176 million
- GDP: RMB 502.269 billion
- Per capita GDP: RMB 125,000



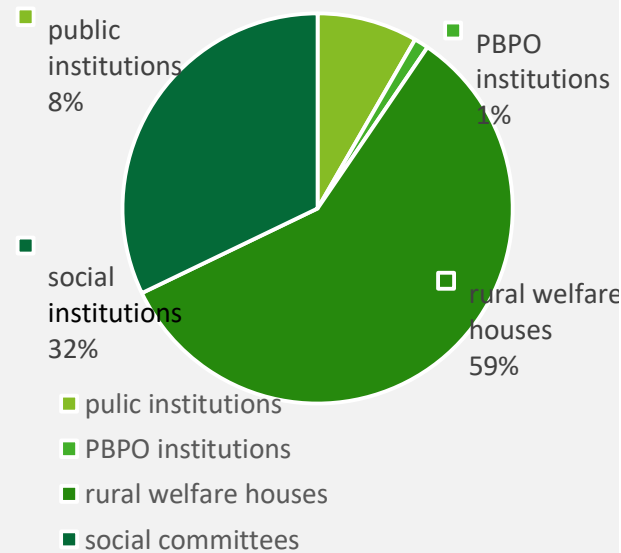
Changes of Elderly Population in Yichang Urban Area (2019-2039)



Yichang EC market status

Source: YCAB

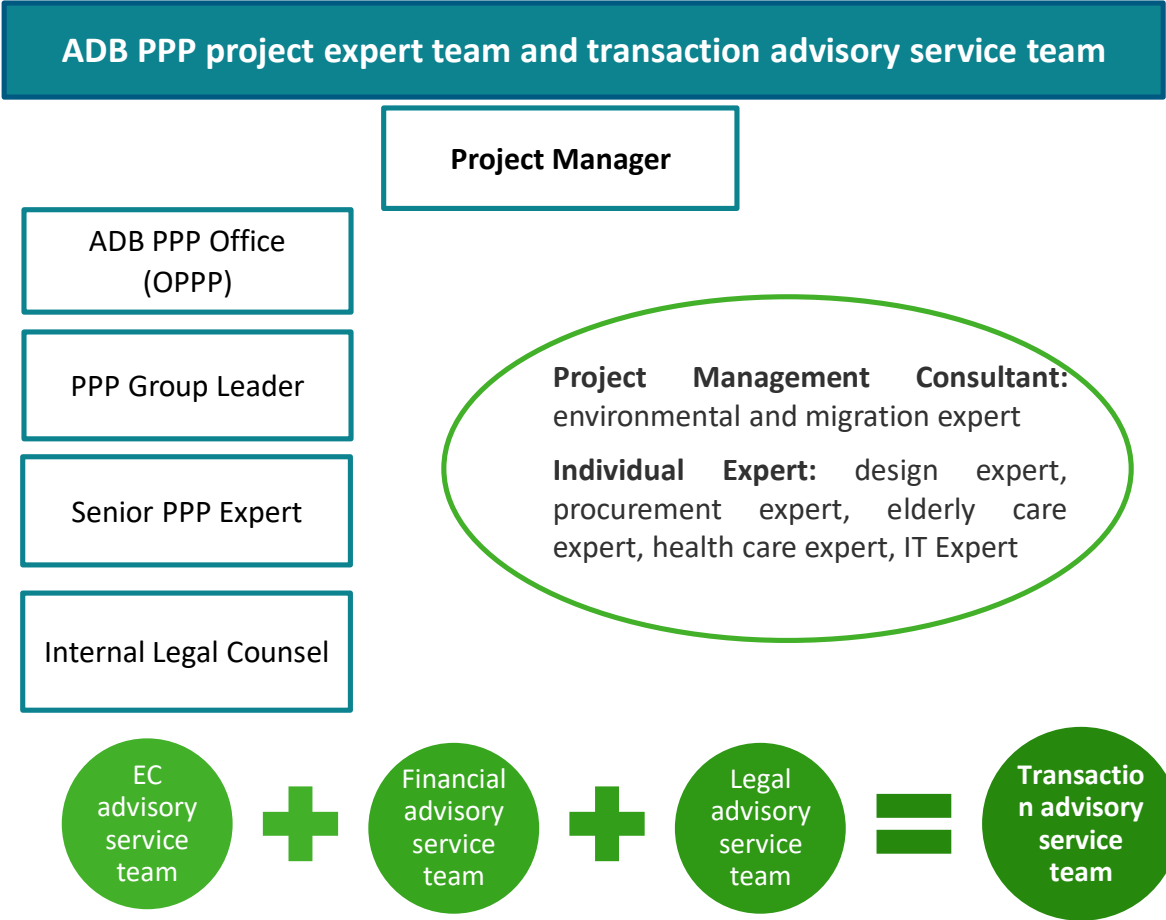
There are 168 elderly care institutions in Yichang, distributed in 15 cities/districts/counties, with 14 public institutions, 2 PBPO institutions, 98 rural welfare houses and 54 social institutions.



Project Overview and ADB's Support

At the end of December 2016, ADB approved a loan for this project, indicating that "this will be the first result-oriented sovereign loan to support the popularization of PPP model in China", as well as the first EC PPP project loan. This project with demonstration effect will enhance the local government's ability to develop, purchase and manage PPP projects, and provide quality-improving, efficiency-enhancing and socially inclusive public EC services for the local elderly.

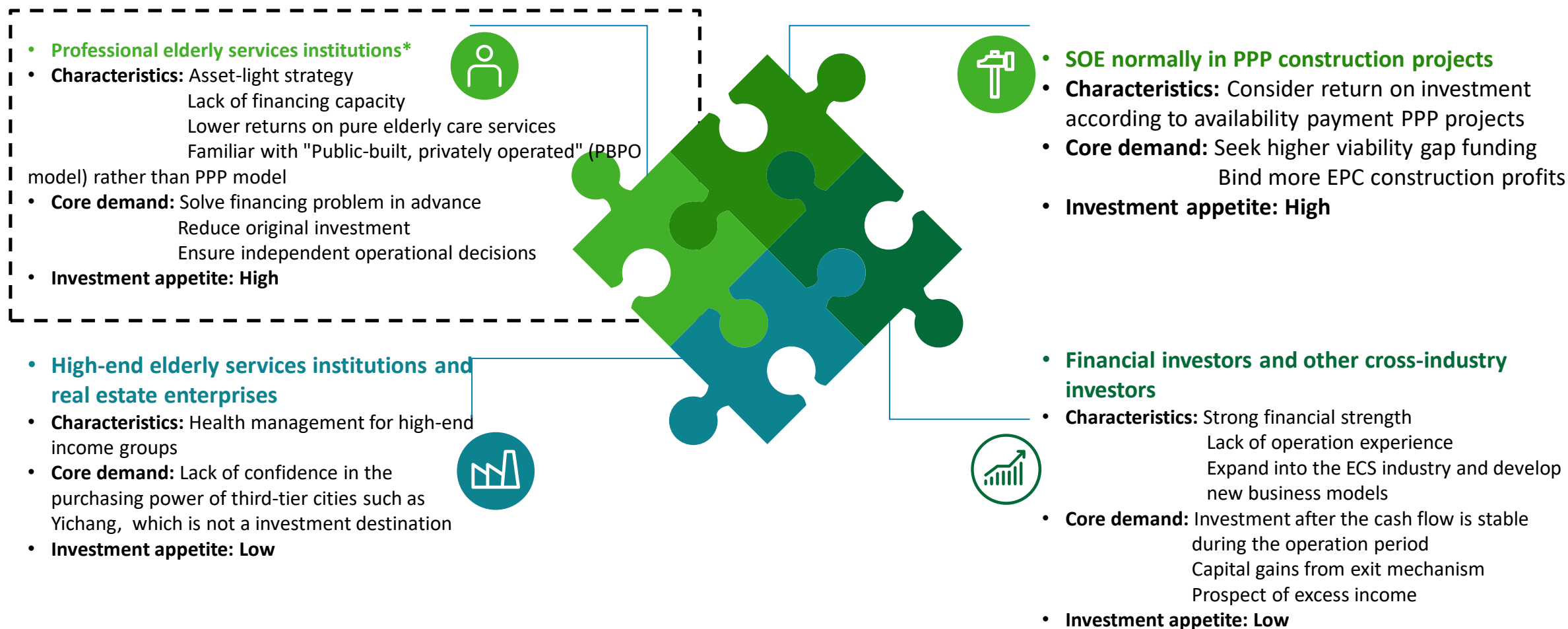
Item	Two Sub-Project	
Capacity	365 Beds	892床 Beds
Construction area	26000 sq. m	54000 sq. m
Financing Source	USD50 million, ADB’ sovereign loan USD31 million, YichangMunicipal Govenment the rest , Private Sector / PPP project company	
Revenue	User Payment	
Objective	<ul style="list-style-type: none"> Seek more innovative, sustainable, manageable ways to deal with the problem of elderly care; Comprehensively improve the quality of ECS in Yichang. 	



The Key Points and Difficulties of Project Implementation

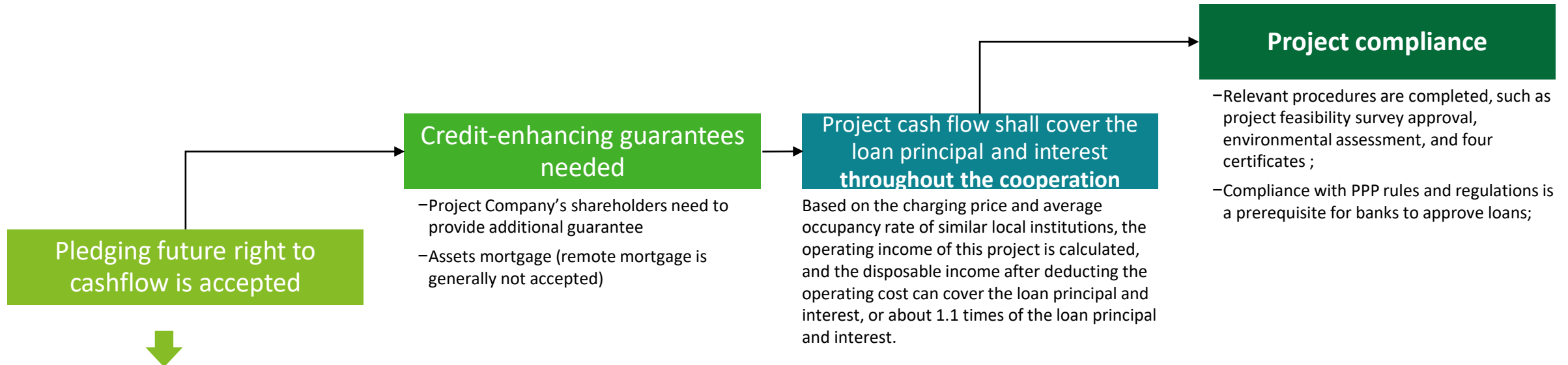
Market Sounding

Five rounds of market sounding have been conducted on the investment appetite of private partners before launching the procurement procedure: COVID-19 pandemic has caused harsh decrease in ECS institutions' cash flow and future forecast for taking new investment opportunities.



Market Sounding (Con't)

The attitude of banks towards user-payment projects is positive. However, considering the bank's requirements for shareholder guarantee, credit enhancement and loan mortgage rate, there is great pressure for the light asset social operators to obtain a full loan.



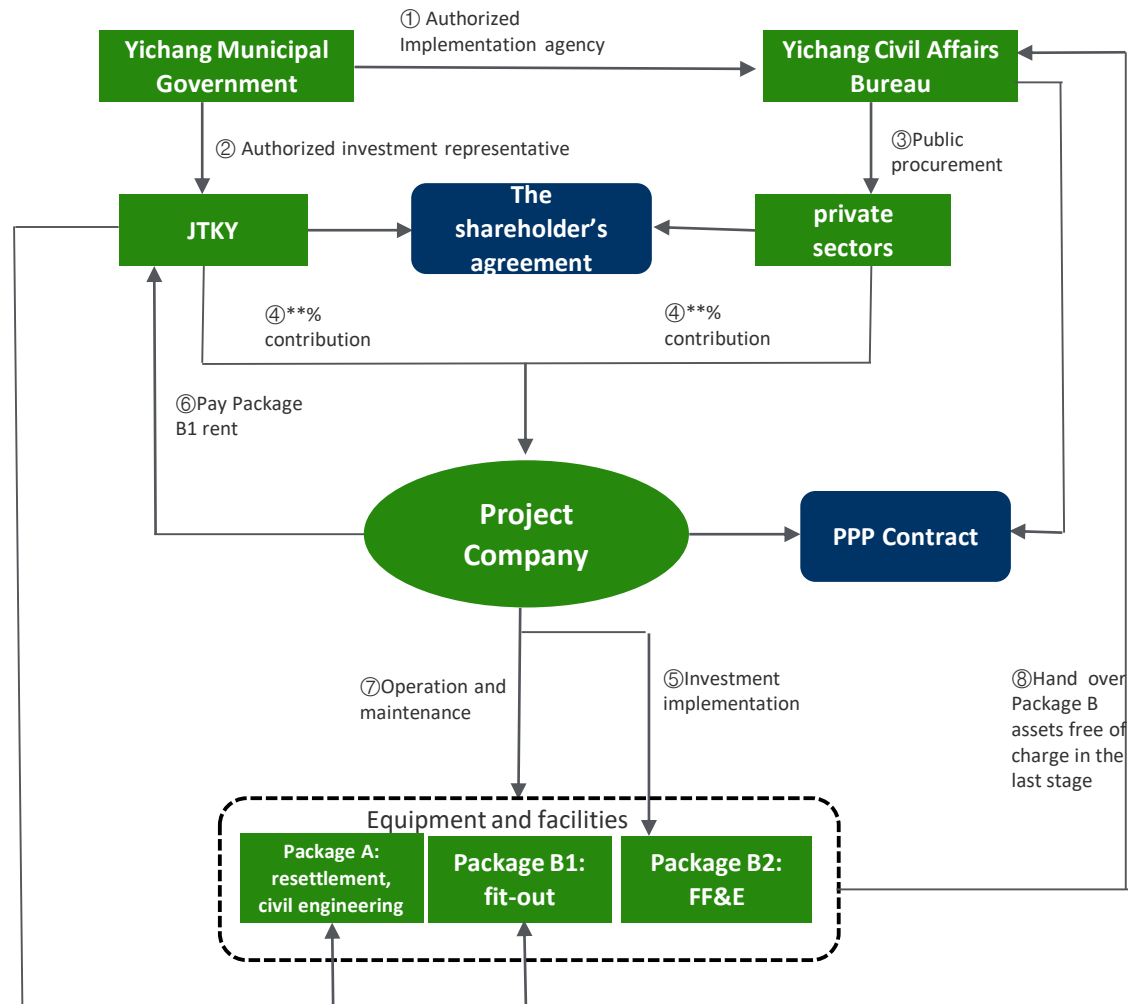
If the future cashflow heavily relies on user-payment, the pledge of right to user-payment can be accepted, but the forecast of project income should be reasonable and realistic.

Key considerations:

- Pledge of future right to cashflow is acceptable for banks;
- Considering the project's A/B package, since the Project Company has no land and construction in progress can be mortgaged, most banks need shareholders to provide guarantee or credit enhancement measures;
- SOE’s participation in the project structure could be regarded as a credit enhancement measure and is still critical for financing purposes.

Project Transaction Structure

Elderly care institutions generally adopt the asset-light model; This project adopts the model of "Package A+Package B1+Package B2" to reduce the investment and financing pressure of private sectors under the PPP model.

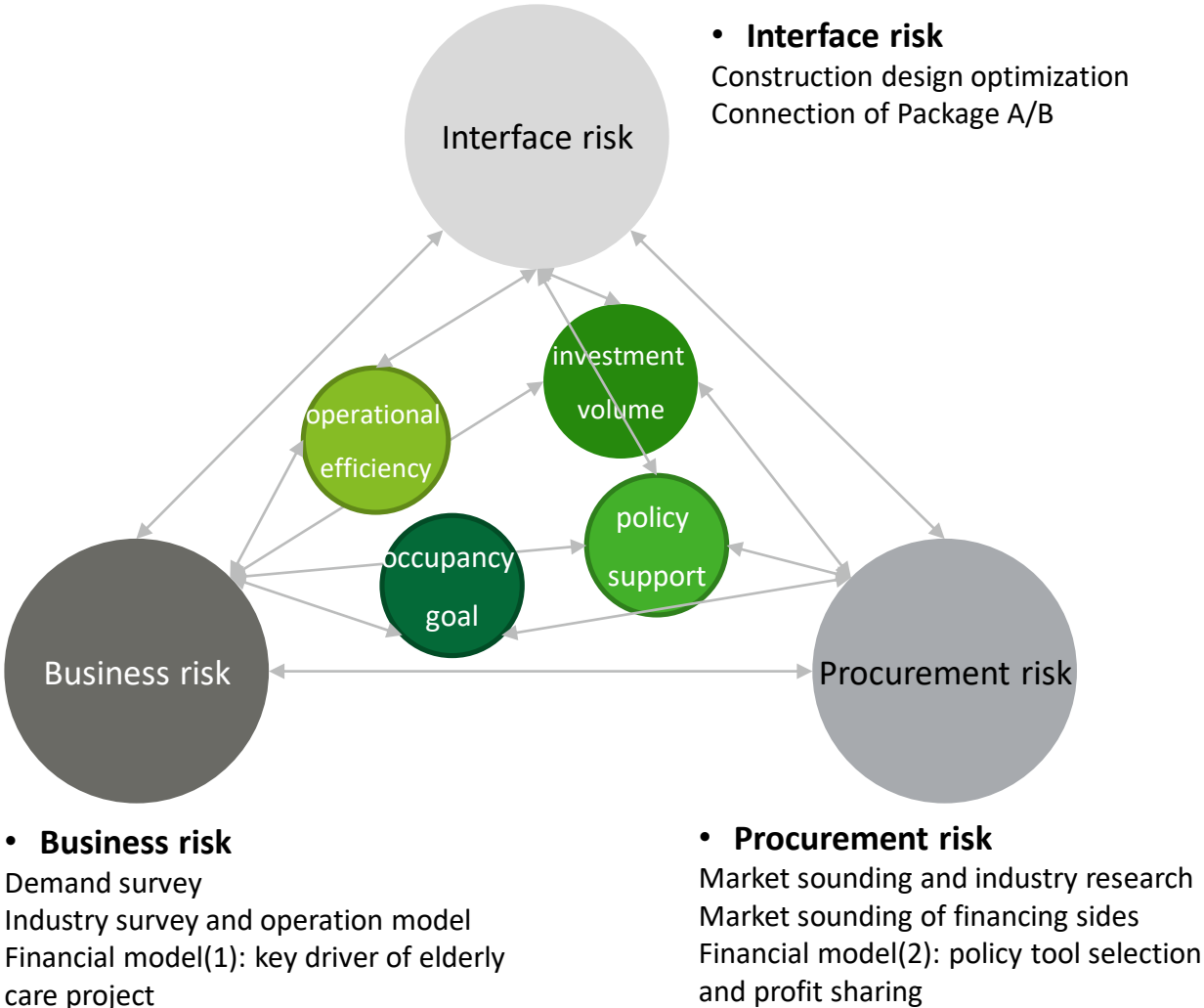
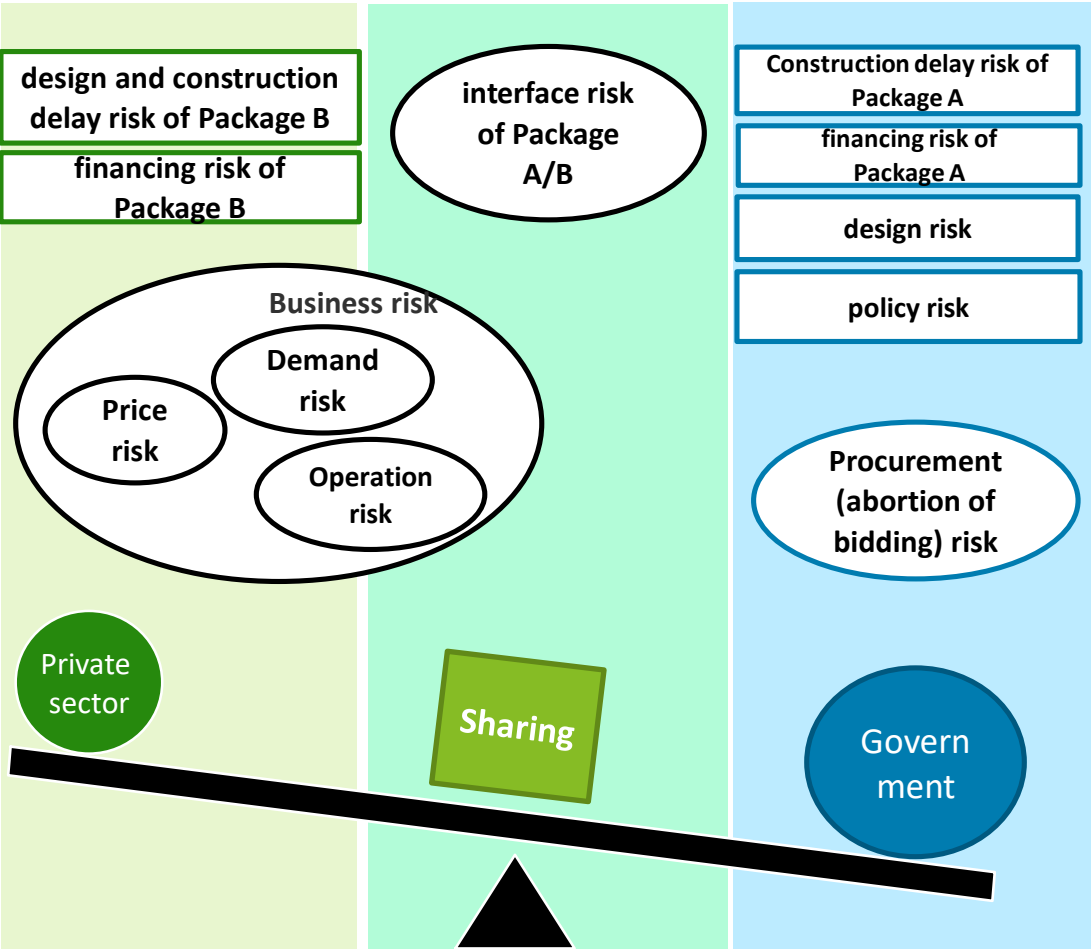


Major advantages of Package A/B:

- In conformity with asset-light model:** Package A/B model can help reduce the financing pressure of private sectors and future financial payment pressure under the PPP model. Project company is responsible for the investment of Package B2
- Implementation Agency and Government representative:** the authorized implementing agency by YMG, is responsible for Project's preparation, procurement and handover on behalf of YMG. Kangyang shall act as the government representative for equity contribution;
- Rational risk allocation:** The risks are borne by the most competent parties: risk for land availability, risk of seeking approval and construction delay risk are born by the government, while operation quality risk and business risk born by the private sector.
- User Payment:** The main source of revenue for Project Company will be charges collected from users. The government will not provide any viability gap funding during the Cooperation Term.
- Full lifecycle efficiency improvement:** The private sector will be responsible for the long-term (about 14 years) maintenance of the project with high potential for future business growth, as well as the long-term update of assets.

Project Risk Allocation Framework

Interface risk, demand risk and procurement risk are the most important risks faced by the project.

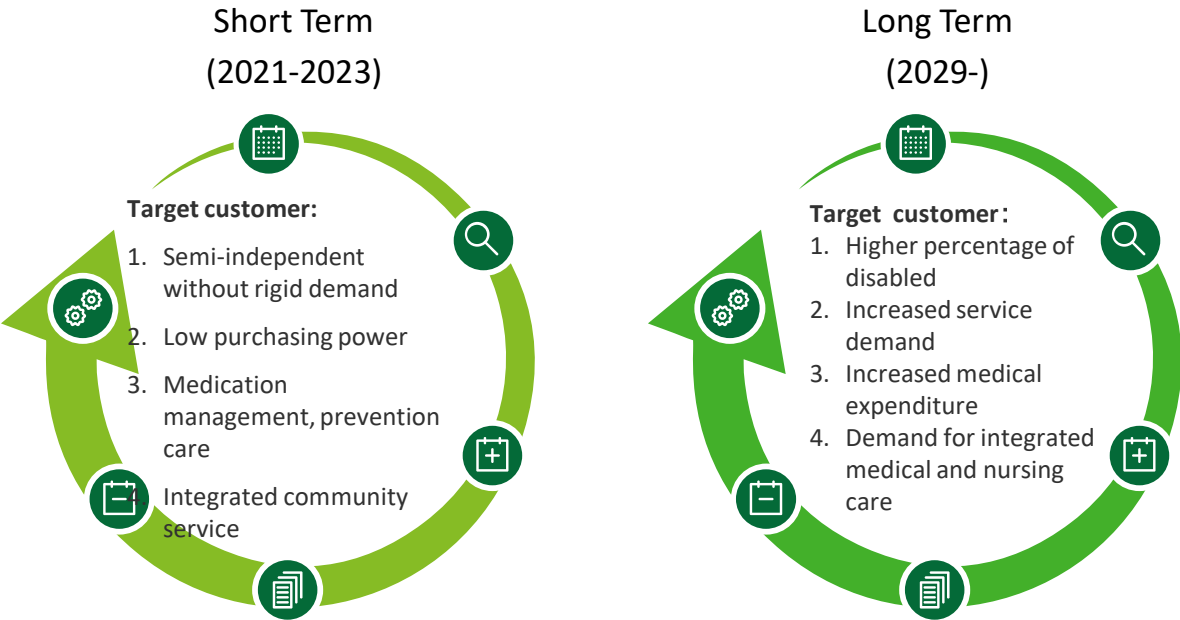


Phased Input and Operation

Phased investment is acceptable for both public sector and private sector to reduce the demand risk and relieve the investment pressure

1. Key takeaways from demand survey :

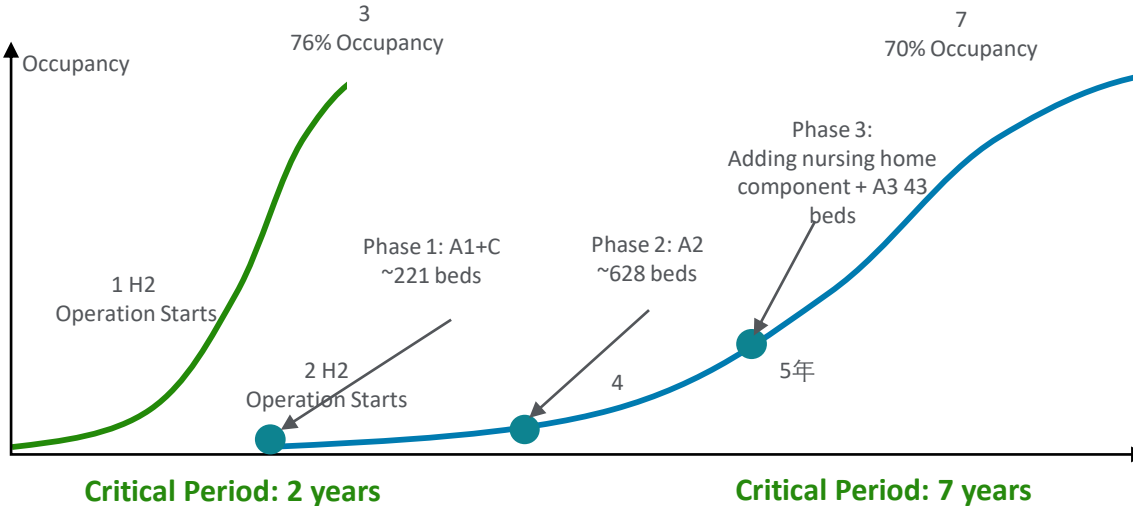
- 1. The health condition of the elderly in Yichang is generally good, and the rigid demand (old age/disability) is low and has been met to a great extent. The overall market supply exceeds demand (occupancy rate is low).
- 2. The elderly in Yichang with intention to live in elderly care institutions have weak payment ability and high price sensitivity.
- 3. In the long run, the current 60-69 years old people will gradually generate a large number of demand for elderly care services in 10 years.



Start-up period and phased opening:

- 1. Investors need to take time to build their branding in a new market.
- 2. The proposed pricing level, subject to the service standards, will be higher than local average, resulting a moderate demand;
- 3. 892 beds – Medical Complex is among the largest single-ECS facility in Hubei. Without ‘rigid demand’, the start-up period for this will be long;
- 4. One-time CAPEX won’t be economic considering the financing cost and D&A cost.

Phased investment and opening (figurative)



Connection of Construction, Design and Operation

The PPP contract specifies the responsible party for the design and construction of Package A/B1/B2 and the connecting measures;

Content of package, minimum replacement cycle of Package A&B1, acceptance procedure of Project are all related with interface arrangement.

Content of Package B2 mainly includes Fittings, Furniture & Equipment (FF&E).

- TV, refrigerator, washing machine, bed (nursing bed and ordinary elderly bed), wardrobe, bedside table, TV cabinet, water heater, kettle, blackout curtain, mattress and Bedding, decorative decoration,
- air conditioner, fan,
- medical supporting equipment,
- kitchen facilities and equipment,
- toilets and bathroom systems, toilets
- other public supporting facilities and equipment (such as laundry room, chess and card room, gymnasium, film and television room, etc.),
- senior transportation vehicles, truck vehicles,

Division of Responsibilities

Responsibility	Package A	Package B1	Package B2
Preliminary design	JTKY	JTKY	JTKY
In-depth design	JTKY	Project Company	Project Company
Investment	JTKY	JTKY	Project Company
Construction	JTKY	JTKY	N/A
Procurement and installation of equipment	N/A	N/A	Project Company

Occupancy Assessment

Occupancy rate is one of the key and most representative indicators to assess Project Company's operating performance. This indicator can give Project Company more incentives to achieve better performance

To stimulate Project Company's operation efficiency and ensure the efficient use of the government's investment in The Project, the government will conduct a phased occupancy assessment,



- Package A and Package B1 were built by the government. Based on YMG's opinion, the occupancy rate assessment will provide feedback on the utilization efficiency of government buildings and check whether state-owned assets are idle.
- One of the government's objective to initiate PPP Project is to improve the efficiency of the supply of public service products by introducing Private Sector with extensive and advanced operating experience.
- Occupancy rate is one of the key and most representative indicators to assess Project Company's operating performance. This indicator can give Project Company more incentives to achieve better performance.



- The government discloses the minimum requirement for occupancy rate during the bidding process, and allows the Private Sector to propose amendments to this during the bidding process.
- If the occupancy rate of the year does not meet the standards, the Project Company shall pay the government liquidated damages in accordance with the PPP Contract
- The government agrees in principle with the occupancy rate assessment and rewarding mechanism, that is, setting the occupancy rate assessment goal.

Pricing Autonomy

If demand risk and pricing risk are borne by Private Sector, the government should not strictly regulate the price

Pricing Autonomy & Mid-term Evaluation

For the elderly care service institutions operated entrusted operation model etc, the specific service charging standard is reasonably determined by the operator in accordance with the commission agreement.



The government suggests that The Project should not contain exclusive elderly care service.

To ensure that the project pricing is in line with the project positioning, the project pricing level will be evaluated during the mid-term evaluation. In the mid-term evaluation, government shall conduct or entrust a third-party advisor to conduct evaluation procedures.

How to evaluate whether the project pricing is significantly higher



- Evaluation on consuming ability of the elderly:

- To research and evaluate the pension level and willing to pay of the elderly within the project service scope in Yichang, and compare these standards with the pricing level of The Project.



- Market comparison approach

- To research the charging standards of both inclusive and exclusive elderly care projects, and compare these standards with that of The Project.



- user fee needs allow inclusion of cost recovery and reasonable margin

- when comparing the pricing, it is suggested to compare the pricing of self-care and semi-disabled elderly. It depends on the real situation whether to compare the pricing of dependent elderly or not.



- The revision of the standard

- It could be assumed to be significantly higher than the project positioning if the project pricing is higher than the data(charging standard/pricing) collected from the research with a certain proportion. Due to the fact that the market of elderly care service is fast changing in Yichang. It is suggested to confirm the judging standard with the suggestion of a third-party advisor at the appointed time

Social Inclusiveness

Social Inclusiveness Realization Path and Service Targets



paths to achieve social inclusiveness

- Based on the FSR and other decision support documents, clarify the goal and orientation of social inclusiveness;
- Aging-friendly design concepts and functions are applied to the preliminary design of the project;
- In the PPP procurement process, through procurement documents, PPP agreements and other documents, bidders are required to make commitments to provide social inclusive implementation measures in project operation and management;
- During the implementation and operation period of the PPP project, the specific requirements for social inclusiveness shall be implemented through performance assessment and contractual management.

● ————— How to evaluate whether the project pricing is significantly higher ————— ●



• Socially inclusive target users:

- This project mainly serves the middle-lower income elderly groups in the main urban area of Yichang City..



• Socially inclusive service providers

- Female caregivers are hired with priority: Women make up the majority of the elderly care workforce, but they have a high divorce/single rate (almost as high as 60%-70%), low income, low education, and lack of skills. Most of them are from Yichang city and its surrounding suburban counties, and the main age group is between 35 and 55 (especially between 40 and 50).
- Informal home-based nursing staff in the community: Combined with home-based door-to-door services, the guidance and nursing skills training of home-based nursing staff will be carried out to improve the ability of family nursing care and create a source of customers for nursing institutions. ..



• care service facilities are shared with the community

- Supporting facilities for the elderly: such as library, chess and card room, tea bar, psychological consultation room etc., are open to residents in the surrounding communities.
- Community elderly service extension: pay regular home visits to solitary, empty-nesters or families who have lost their only child; provide the temporary care service or custody of their partner when one of the empty nesters is in hospital; assist the elderly in the community to complete booking services, such as online registration, online car booking, etc.



• The elderly of ethnic and religious groups

- During design and construction period, The Project has reserved space for implementing with halal kitchens, Muslim restaurants and chapels, implanting traditional cultural entertainment projects of Tujia and Bai ethnic minorities, enriching the spiritual life of multi-ethnic elderly, etc.

Social Inclusiveness

Social Inclusiveness Realization Path and Service Targets



The main paths to achieve social inclusiveness are as follows:

- Based on the FSR and other decision support documents, clarify the goal and orientation of social inclusiveness;
- Aging-friendly design concepts and functions are applied to the preliminary design of the project;
- In the PPP procurement process, through procurement documents, PPP agreements and other documents, bidders are required to make commitments to provide social inclusive implementation measures in project operation and management;
- During the implementation and operation period of the PPP project, the specific requirements for social inclusiveness shall be implemented through performance assessment and contractual management.

1)Socially inclusive target users

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2)Socially inclusive service providers

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3)Elderly care service facilities are shared with the community

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Social Inclusiveness (Con't)

Social Inclusiveness Realization Path and Service Targets



Under the PPP model, the realization path of social inclusiveness: The ADB loan agreement and implementation documents, the PPP project FSR, etc., clarify the inclusive targets and positioning; Add the aging-friendly design concept and function in the preliminary design of the project; In the PPP procurement process , through procurement documents, PPP agreements and other documents, require and encourage bidders to provide inclusive implementation measures in project operation and management; During the implementation and operation of PPP projects, implement specific requirements for inclusiveness through in-depth design and performance assessment.

The Pricing Level of Yichang Elderly Care Service Market

- In addition, in the process of investigating the current situation of supply and demand of ECS in Yichang City, the consultants investigated eight EC institutions in Yichang, and obtained the project prices as shown in the table below:

Institution	Xiling District Social Welfare Institute	Wujiagang District Social Welfare Institute	Yichang Hexiang	Yichang Wanxia Senior Apartment	Yichang Municipal Social Welfare Institute	Yichang Wanshou Elderly Care Center
Address	Xiling District	Wujiagang District	Dianjun District	Xiling District	Xiling District	Dianjun District
Type of Institution	Public	Public	Private	Private	Public	Private
Completed Year	Earlier Year	2011	2015	2005	1959	2019
Charges for Self-Care Elderly(RMB/Month)	1,400	1,000	1,900	1,100	2,000	2,600
Charges for Disabled Elderly (RMB/Month)	2,200	1,750	2,900	2,500	5,000	3,800

The pricing level of the project

- Higher than the pricing level of most PBPO service institutions;
- The fee level is similar to or slightly higher than that of private elderly care institutions;
- The pricing level is lower than that of mid-to-high-end elderly care services such as Gezhouba.



Propose highly targeted operational service plans for different types of elderly

- In the follow-up bidding documents, bidders are required to specify specific measures to prevent the risk of services for oldest-old elderly based on the evaluation result in implementation of Package B2 and service standards.
- The bidders are required to put forward specific and feasible implementation suggestions in Package B2 according to the functional characteristics and service needs of such elderly groups.
- In the bidding documents, bidders are required to receive the elderly living alone and empty nesters, especially elderly women with priority.
- Bidders are encouraged to establish a management system for the preferential employment of ethnic minorities; in catering services, provide catering service plans and implement specific measures according to religion and ethnic minority habits. The bidders are required to highlight the cultural characteristics of regional ethnic minorities in the interior environment decoration.

Other parts of social inclusiveness

- A service workforce that embodies social inclusiveness.
- Socially inclusive elderly care services are shared with the community.

Project benefit level analysis

Two-factor sensitivity analysis was carried out on different pricing levels and occupancy rates, and the after-tax internal rate of return of full investment in different scenarios was obtained, and the case where the rate of return was higher than 7% was screened, marked as

Fee RMB/ Per-Month	The occupancy rate in the sixth year (total 1257 beds)									
	Self-care	Semi-independ	Disabled	78%	70%	64%	60%	51%	42%	35%
	2,000	2,500	3,000	-6.9%	-8.9%	N/A	N/A	N/A	N/A	N/A
	2,200	2,700	3,200	3.2%	1.7%	0.2%	-1.5%	-7.5%	N/A	N/A
	2,400	2,900	3,400	9.8%	8.3%	6.8%	5.2%	0.7%	-9.7%	N/A
	2,500	3,000	3,500	12.7%	11.2%	9.6%	8.0%	3.7%	-5.0%	N/A
	2,600	3,100	3,600	15.3%	13.8%	12.2%	10.7%	6.3%	-1.4%	N/A
	2,800	3,300	3,800	19.8%	18.4%	16.8%	15.4%	11.1%	3.9%	-5.0%
	3,000	3,500	4,000	24.0%	22.5%	20.9%	19.4%	15.4%	8.5%	0.9%