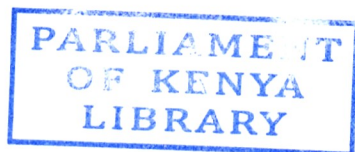


PARLIAMENT OF KENYA



NATIONAL ASSEMBLY

11TH PARLIAMENT – 2ND SESSION

THE DEPARTMENTAL COMMITTEE
ON
HEALTH

REPORT ON THE WAY FORWARD ON THE NATIONAL HOSPITAL
INSURANCE FUND'S PROPOSED KAREN MEDICAL CENTRE OF
EXCELLENCE

Parliament Buildings
Nairobi.

JUNE 2014

Table of Contents

1.0 PREFACE	3
2.0 INTRODUCTION.....	6
3.0 COMMITTEE FINDINGS.....	6
3.1 Background of the Proposed Medical Centre of Excellence.....	6
3.1.1 The Project as a Medical Resource Centre - 2001.....	6
3.1.2 The Project as a Kenya Vision 2030 Flagship Project - 2008.....	8
3.2 Revised Scope of Work to the Consultants.....	11
3.3 Analysis of Expenditure on the Project.....	12
3.3.1 Actual Payments since inception	12
3.3.2 Pending Bills.....	13
3.4 Committee Visit to the Site of the Karen Centre of Excellence.....	13
3.5 Meeting with the proposed Karen Centre of Excellence Project Manager.....	14
4.0 COMMITTEE OBSERVATIONS	17
5.0 RECOMMENDATIONS.....	20
6.0 ANNEXES.....	21

1.0 PREFACE

Mr. Speaker, Sir,

The Departmental Committee on Health is established pursuant to the provisions of Standing Order No. 216(5) of the Kenya National Assembly and in line with Article 124 of the Constitution (2010) which provides for the establishment of Committees by Parliament. The Committee is thus mandated to:-

- i) Investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned Ministries and departments;*
- ii) Study the programme and policy objectives of the Ministries and departments and the effectiveness of the implementation;*
- iii) Study and review all legislation referred to it;*
- iv) Study, assess and analyze the relative success of the Ministries and departments as measured by the results obtained as compared with its stated objectives;*
- v) Investigate and inquire into all matters relating to the assigned Ministries and departments as they may deem necessary, and as may be referred to them by the House;*
- vi) Vet and report on all appointments where the constitution or any law requires the National Assembly to approve, except those under Standing Order 204; and*
- vii) Make reports and recommendations to the House as often as possible, including recommendation of proposed legislation.*

Mr. Speaker, Sir,

The Committee Membership is as follows:-

- | | | |
|---|---|------------------|
| 1. The Hon. Dr. Rachel Nyamai, M.P. | - | Chairperson |
| 2. The Hon. Dr. Robert Pukose, MP | - | Vice Chairperson |
| 3. The Hon. Alfred Agoi, M.P. | | |
| 4. The Hon. Christopher Nakuleu, M.P. | | |
| 5. The Hon. David Karithi, M.P. | | |
| 6. The Hon. Dr. Dahir Duale Mohamed, M.P. | | |
| 7. The Hon. Dr. David Eseli, M.P. | | |
| 8. The Hon. Dr. Enoch W. Kibunguchy, M.P. | | |

9. The Hon. Dr. James Murgor, M.P.
10. The Hon. Dr. James Nyikal, M.P.
11. The Hon. Dr. James O. Gesami, M.P.
12. The Hon. Dr. Naomi Shaban, M.P.
13. The Hon. Dr. Patrick Musimba, M.P.
14. The Hon. Dr. Stephen Wachira, M.P.
15. The Hon. Dr. Susan Musyoka, M.P.
16. The Hon. Eng. Stephen Mutinda Mule, M.P.
17. The Hon. Fred Outa, M.P.
18. The Hon. Hassan Aden Osman, M.P.
19. The Hon. James Gakuya, M.P.
20. The Hon. John Nyaga Muchiri, M.P.
21. The Hon. Joseph O. Magwanga, M.P.
22. The Hon. Kamande Mwangi, M.P.
23. The Hon. Leonard Sang, M.P.
24. The Hon. Masoud Mwachima, M.P.
25. The Hon. Michael Onyura, M.P.
26. The Hon. Mwinga Gunga, M.P.
27. The Hon. Paul Koinange, MP
28. The Hon. Raphael Milkau Otaalo, M.P.
29. The Hon. Zipporah Jesang, M.P.

The Second Schedule of the National Assembly Standing Orders assigns the Departmental Committee on Health the mandate to consider matters related to health, medical care and health insurance. Thus, the Committee oversees the Ministry of Health and eight semi-autonomous agencies (SAGAs), one of which is the National Hospital Insurance Fund (NHIF).

In pursuit of its mandate, therefore, the Committee inquired into the matter of the proposed NHIF Karen Medical Centre of Excellence, a project which was conceptualized in 2002 yet to date, ground breaking for the project is yet to be done despite approximately Kshs. 1.5 billion shillings having been already spent at design stage and an additional Kshs. 5 billion being claimed by consultants.

The details of the Committee findings and observations are as outlined in this Report and the Committee urges all the Members of the House to acquaint themselves with its contents so as to appreciate the ultimate recommendations therein.

The Committee sincerely wishes to thank the Offices of the Speaker and the Clerk for the National Assembly for the necessary support and service accorded to the Members to ensure the Committee executes its mandate of ensuring Kenyans receive quality health care. The Committee would also

like to underscore its appreciation and gratitude to the Ministry of Health leadership and the NHJF Board and management for their cooperation and for availing all the needed information to the Committee.

I thank all Members of the Committee for their patience, sacrifice, hard work and more importantly, their objectivity.

Mr. Speaker Sir,

On behalf of the Committee on Health, it is my pleasure to present this Report and recommendations therein to the House for consideration and adoption pursuant to Standing Order 216.

SIGNED 

**HON. DR. RACHEL NYAMAI, M.P.
CHAIRPERSON**

DATE.....17.....

2.0 INTRODUCTION

The National Hospital Insurance Fund is a State Corporation established in 1966 as a department under the Ministry of Health but currently governed under the NHIF Act No 9 of 1998. The original Act of Parliament that set up this Fund in 1966 has over the years been reviewed to accommodate the changing healthcare needs of the Kenyan population, employment and restructuring in the health sector.

The transformation of NHIF from a department of the Ministry of Health to a state corporation was aimed at improving effectiveness and efficiency. The Fund's core mandate is to provide medical insurance cover to all its members and their declared dependants (spouse and children). The NHIF membership is open to all Kenyans who have attained the age of 18 years and have a monthly income of more than Ksh 1,000.

The Committee started the inquiry into the proposed Karen Project in July 2013 and in doing so, it held several meetings with the Cabinet Secretary and Principal Secretary, Ministry of Health, the NHIF current management led by the current Chief Executive Officer and the Project Manager for the Karen Project.

The Committee received several submissions on the proposed Karen Centre of Excellence. The Chapter below details some of the findings.

3.0 COMMITTEE FINDINGS

3.1 Background of the Proposed Medical Centre of Excellence

3.1.1 The Project as a Medical Resource Centre - 2001

1. The proposed Karen Medical Centre of Excellence was first conceptualized in the year 2001 as a Medical Resource Centre. The purpose of the centre was to support delivery of essential health medical services, support medical education while supporting capacity building for various professionals in the management of the health sector. The facilities envisioned then were a medium sized health medical centre for demonstration, training facilities for hospital management cadre, central stores for NHIF records and for rental, recreational facilities and staff housing.

Board Approval and Land Acquisition

2. The Fund's Board, during its Sixth Special Board Meeting held on 16th January, 2002 approved the establishment of the training cum recreational facility for the Fund. Thereafter, on 22nd January, 2002, the Fund called for land valuation and the Chief Valuer, Ministry of Lands and Settlement then valued the land located in Karen, measuring 9.25 hectares for Kenya shillings one hundred million, five hundred sixty nine thousand, seven hundred only (Ksh.100,569,700.00).
3. In a later meeting held on 27th March 2002, the Board approved Ksh.95 million for the purchase of the land for the training cum recreational facility and allocated Ksh.85 million for the development of the Resource Centre. The land, land registration number L.R. 209/24968/2 was acquired from M/S Kaskazi Traders Ltd for the sum of Kshs.93,712,675/=.

The Sale Agreement for the purchase of the land was signed on the 28th March, 2002 while the transfer of the Title to the Fund was effected on 20th December, 2002.

4. State corporations are required to seek approval from the National Treasury on matters relating to acquisition and disposal of assets. In compliance with this requirement, the Fund wrote to the Investments Secretary vide letter Ref. HF/C/960/6 dated 5th March 2002 seeking approval for the establishment of the envisaged Resource Centre. This was modeled on the concept of purchasing land and building a complex for staff training and welfare.

Commissioning of Consultants

5. Before the Fund received feedback from Treasury, the Management commissioned the following Consultants in April 2002, without approvals from the Board and Ministries of Health and Finance as is stipulated in the Exchequer and Audit (Public Procurement) Regulations, 2001:-

i. Project Architects	-	Baseline Architects
ii. Interior Designer	-	Two Design Architects
iii. Project Quantity Surveyors	-	Ujenzi Consultants
iv. Quantity Surveyors (Interior (Works)-	-	Costwise Associates

v. Mechanical/Civil Engineers	-	Professional Consultants
vi. Project Structural Engineers	-	S.R. Manga & Associates
vii. Project Electrical Engineers	-	Kaigutha & Partners
viii. Project Manager	-	Friscan Construction Management

Response from the Ministry of Finance

6. The Ministry of Finance responded by advising that the Ministry of Health was required to grant approval for the project after consultations with the Treasury and further requested for feasibility study report and the corporation cash flow projections. The Fund then submitted the Report to the Treasury through the parent Ministry vide letter Ref. HF/C/961/6 dated 5th April, 2002.
7. Treasury, vide letter dated 20th August, 2002 replied to the Ministry of Health stating its position that there was no justification for the Project and therefore did not grant the approval for the Project.

3.1.2 The Project as a Kenya Vision 2030 Flagship Project - 2008

8. In May 2008, the Government, through the Ministry of Medical Services identified the envisaged resource centre as one of the flagship projects for realization of the Kenya Vision 2030 in the Health Sector. This upgrade resulted in recognition of the project as a Vision 2030 flagship project geared towards responding to the following needs;
 - i. Government initiatives in the health sector as provided in the policy documents for example the Health Sector Policy Framework, 2000-2004 and the 2005-2010 Health Sector Strategic Plans,
 - ii. Emerging disease and increasing disease burden as established through several Government studies;
 - iii. Opportunity to take advantage of the emerging market in medical tourism.
9. The Centre of excellence therefore was envisaged to match other centers of excellence in the world in diagnostics and treatment and as such reverse the flow of Kenyan patients to India, South Africa and other medical destinations for specialized treatment as well as make Kenya a regional medical tourism destination. Further, it was also expected to supplement the universities and middle level medical colleges in training so as to bridge the gap in medical expertise.

Components of the Medical Centre of Excellence

10. The Medical Centre of Excellence was envisaged to have the following distinct components: a medical centre, training institute, administration building and support facilities with facilities ranging from outpatient services, Accident and Emergency, Physio and Hydrotherapy areas, Cancer treatment centre with 2No MRI, 30 operating theaters, 10 X-Ray Rooms and 9 ultrasound rooms. Others include, 3 CT Scan Rooms, a 26 bed ICU, 12 bed HDU, 6 bed special care unit, a dialysis centre, an 815 bed capacity inpatient ward, specialized doctors clinics, fertility centre and a recuperation center.

11. In October 2008, a Cabinet Memorandum on the project was prepared and presented by the then Minister for Medical Services. The Memorandum requested the Cabinet to:

- a) Approve establishment and construction of the proposed medical resource center in Karen, Nairobi;
- b) Mandate NHIF to explore potential strategic partners for the development of the project;
- c) Approve establishment of the Medical Board of Trustees to manage the Medical Resource Centre.

12. The Cabinet referred the matter to the Cabinet Sub-Committee on Social, Health and Services Sector for further deliberations. The sub-committee recommended further appraisal and rationalization of the project and to seek Treasury's concurrence on the matter. Subsequently, the Ministry of Medical Services carried out a consultative meeting on 18th August, 2009 to address further appraisal and rationalization of the project.

In September 2009, a delegation of Ministry of Medical Services led by the Minister and accompanied by the Chief Executive Officer of NHIF, a team of medical experts and technical consultants visited New Delhi, India to identify best practices in various medical institutions.

13. In October, 2009, a task force of medical experts led by the late Prof. Julius Meme and the then Deputy Director of Medical Services was appointed to prepare a "Rapid Assessment of the Need for a Medical Resource Centre in Kenya". The task force concluded its report on 24th October, 2009. In its report the task force observed that:

- i) *“The proposed Resource Centre through its medical facility will ease congestion that is currently witnessed in the two national referral hospitals (Kenyatta National Hospital and Moi Teaching and Referral Hospital) specifically on medical care. The resource centre will serve Kenya and the wider Eastern Africa region. A collaborative approach will be put in place so that Kenyatta National Hospital and the Resource Centre will complement each other. This objective is in line with Vision 2030 to make Kenya a destination of choice for health care in the region.*

 - ii) *The resource centre will also serve as a training centre for Hospital and Health Administrators who are largely left out in the training curriculum of the national training institutions. Presently, there is no institution that trains senior level hospital administrations a gap that has impacted negatively in the provision of quality health care and the skyrocketing costs amongst health care providers. The NHIF resolved to champion the setting up of this Medical Resource Centre modeled along the lines of International Medical Centers in India and other developed Countries”*
14. In June 2010, the government vide letter Ref. OPM.1/1NF/89/125 directed the management of NHIF to liaise with Development Bank of Kenya with a view to preparing the pre-requisite documentation and project appraisal, and obtaining necessary approvals to facilitate implementation. The communication indicated further that the project was identified as a strategic health sector project to be financed through a line of credit from Development Bank of China in partnership with Development Bank of Kenya.
15. However, the Ministry of Medical Services noted that the Fund was not able to finance the project and sought strategic partners with a view to establishing a framework for funding.
16. The Office of the Prime Minister wrote to the Fund vide letter referenced OPM.1/1NF/89/165 dated 29th March, 2011 on bilateral talks held with China Development Co-operation. The letter indicated that in a meeting held on 18th March 2011 between the Prime Minister and Vice President of the People’s Republic of China, Development Bank of China and Development Bank of Kenya, the proposed NHIF specialized Medical Centre was discussed. The Fund was

requested to work with Development Bank of China and Development Bank of Kenya to progress the implementation through financing by the Development Bank of China.

17. The Permanent Secretary, Office of the Prime Minister vide letter Referenced OPM1/INF/89/165 dated 28th March, 2011 further communicated to the NHIF to facilitate discussions with the Development Bank of Kenya. The Permanent Secretary, Ministry of Medical Services wrote on 7th April 2011 vide letter Ref. no. MMS/ADM/1/16 VOL.II/ (118) requesting that the matter be referred to the Board for approval and concurrence. (*Appendix 2*).
18. The Board of NHIF tasked Management to liaise with the Consultants to ascertain the implication of the instructions from Government.

3.2 Revised Scope of Work to the Consultants

19. On 21st April, 2011 vide letter Ref. No. HF/C/969 VOL. II/26, the then Chief Executive Officer, commissioned Baseline Consultants to prepare a detailed concept paper and implications of the proposals outlined by the Government. The Consultant was instructed to liaise with all relevant Consultants and bodies to prepare a detailed business proposal and implementation documents to reflect the implications envisaged in the instructions from Government. The Consultants thereafter presented to the Project Committee, the Business Plan, the rationale of the Project, Capacity, Project Design and the Feasibility Study on the Project. This was subsequently submitted to the Ministry of Finance in compliance with Legal Notice No.38 of 2009 for consideration and approval vide letter Reference HF/C/969 VOL. II/86 dated 20th January, 2012.
20. The Ministry of Finance through the Director of Public Private Partnership Secretariat responded vide letter Ref: ZZ/MoF/253/016 'K' dated 30th April 2012 and recommended that the Karen project is suitable as a Public Private Partnership project but it needs tremendous restructuring in size, staging, financing and private sector role. Further, it was advised that a proper feasibility study ought to be carried out by international health PPP consultants. This would thereafter guide in determining the funding of the Project.
21. Thereafter, the Board met on 27th June, 2013 and took the following position which informed the brief to the new Cabinet Secretary for Health, Mr. James Macharia:-

- i. That the Board had already incurred substantial resources on the Project and the need to seek directions from the Government on the same was paramount to guide the Board on the way forward for the Project.
 - ii. That the Board should not proceed with the Project beyond the feasibility study as the budgetary allocation of the same had not been provided for and appropriate approvals had not been received from the National Treasury.
 - iii. The funding of the Project was envisaged to be addressed through Public Private Partnerships and clarification should be sought on the extent the Board had funded the Project and the way forward for all pending bills and implementation of the development of the Project.
22. In July 2013, the Cabinet Secretary and the Chief Executive Officer appeared before the Committee to give a brief on the matter. Similar meetings have since been held in Mombasa, in August, 2013 and in Parliament Buildings where it was resolved that the pending bills to consultants should not be settled until the Committee concludes investigations into the matter and tables its Report before the House.

3.3 Analysis of Expenditure on the Project

23. The project though still at design stage has consumed a sum of Ksh. 1.568 billion in actual payments to various consultants and pending bills worth Ksh. 5.659 billion presented to the Fund by various service providers but is still yet to be paid.

3.3.1 Actual Payments since inception

The Fund has so far made actual payments totaling Ksh.1.568 Billion to various service providers. This amount comprises cost of purchase of land, quantity survey, business plan and financial analysis consultancy fees, legal fees, architectural design service fees and feasibility study. The breakdown of this expenditure is summarized in Table 3:

Table 3: Breakdown of Total Actual Payments since Inception

SERVICES	PAYMENTS (KSH)
Land Purchase	93,712,675.00
Legal Fees	56,113,601.55
Professional Fees	29,823,000.00
Feasibility Study	229,125,964.20
Quantity Survey Cost	413,708,920.25
Architectural Work & Design	475,000,374.15
Electrical Engineering	89,444,064.30
Civil and Mechanical Engineering	173,205,623.95
NCC & NEMA Approval Fees & Land Rates	8,088,935.00
Others	153,990.00
Total Expenditures	1,568,377,148.40

Data Source: NHIF Management

3.3.2 Pending Bills

A total of Kshs. 5.659 billion worth of fees notes presented to the Fund by various service providers on the proposed project are pending payment. This comprises:-

Table 4: Fee notes owed to consultants

Item	Amount (Kshs)
Fee notes which have been assessed and approved by the Ministry of Public Works and the project manager for payment	670 million
Pending fee notes awaiting assessment and approval	240 million
Additional fee notes submitted by the project manager as at 29th May 2013.	4.75 billion
TOTAL	5.659 BILLION

3.4 Committee Visit to the Site of the Karen Centre of Excellence

24. On 21st May 2014, the Committee visited the site of the proposed Karen Centre of Excellence and observed that:

- i. The approximately twenty four hectares of land (9.25ha) is intact without encroachment;
- ii. The land is not fenced.
- iii. The land is bare with no developments.

3.5 Meeting with the proposed Karen Centre of Excellence Project Manager

25. The Committee on the 27th May, 2014, held a brief meeting with the Project Manager, Mr. Nyagah Kithinji, with the view to seeking clarifications on some of the issues regarding the Karen Centre of Excellence. The following is a summary of the issues:
26. On the status of the design, the consultants, that is, the architectural designers, civil and structural engineering designers and mechanical and electrical engineering designers and quantity surveyors have completed their designs including developing a business plan. The project therefore is ready for tendering with estimated construction cost expected at Ksh 24.62Billion. (see Appendix).
27. On the feasibility studies, business plan and project concept paper, the Ministry of Finance, vide communications dated 27th and 28th April 2012, ref ZZ/MOF/253/016 "K" indicated that the 'Karen project is very suitable for the PPP procurement and could be used as a pilot project for health PPP. As such, Treasury advised that feasibility studies, business plan and concept paper be done and to include the following aspects in liaison with the Director of PPP Secretariat at the Ministry of Finance.
 - i. Restructure the project in three phases highlighting medical specialties and revenue creation centres for settlement of payments to the private sector investors under the PPP
 - ii. Restructuring the project for appropriate investment and financing options
 - iii. Health market survey and socio-economic studies
 - iv. Capital costs and revenues
 - v. Financial viability of the project
28. It was therefore envisioned in the plan that the payback period is eight and a half years, average annual rate of return of 18.84% and internal rate of return (IRR) of 14.85%
29. On the outstanding work with completion of all the design work, construction ought to commence. To progress implementation, therefore, the Project Manager informed the Committee that, the Ministry of Health and Finance will be required to:

- i. Validate the feasibility study, structure of the project while providing the ethical, legal and financial support for the procurement of private partners for the components that will run the PPP and BOT;
- ii. Identify partners and firm up partnership agreements with potential joint venture investors and BOT contractors;
- iii. Start infrastructure component of Phase 1 of the Project;
- iv. Conclude negotiations with China Development Bank for a loan to finance part of the infrastructure development;
- v. The Ministry to develop a comprehensive policy framework of referral and super specialty hospitals for effective management of the national referral system

30. On the financing proposal of the project, several components of the project were to be financed using different modalities. For example infrastructure development financing is through government budget allocation and a soft loan (long term, low interest) with government guarantee. Towards this end, the Development Bank of China did express interest in financing the project and signed a Memorandum of Understanding with the Office of the Prime Minister in the last Government. It designated the Development Bank of Kenya as its local representative and disbursing agency and discussions began but they were not concluded. The offer can be revived and followed to conclusion.

31. As regards medical equipment and operationalization of the hospital, it is proposed that this component be financed through a strategic partnership (PPP) with equipment manufacturers whereby the Hospital and Training Institute lease equipment from the manufacturers and sign maintenance agreements for a period to be informed by best practices in the area. The component may also be financed by NHIF as an investment in the project as provided for in Section 34(2) of the National Hospital Insurance Fund Act 9 of 1998.

32. Management and maintenance component of the project is expected to be run through management contracts with private sector operators and joint venture operations with training institutions for the Training Institute e.g. the Chinese system of affiliation of hospitals to universities where universities get space, equipments and a hospital to train their students and in turn offer consultants and students to run part of the services in the hospital is recommended.

33. The Build, Operate and Transfer (BOT) Financing Model is recommended to be considered for provision of the hostels, auditorium equipment, car parks etc.

34. The Project Manager further clarified the matter of professional fees where it was indicated that the project has been designed by local professionals and has undergone various changes since it was first commissioned in 2002. However, fees are charged on the final version of the project. Although the bulk of the fees are payable at the conclusion of the design stage of the project, the consultants would be agreeable that the fees be paid in installments in order to spread the financial burden of the project and achieve an early commencement of project implementation. The payment is on a reclining balance where the Architect is paid at six percent (6%), the Quantity Surveyor at three point five percent (3.5%), Structural Engineers' rate is pegged at 3.25% on sliding scale while the Mechanical and Electrical Engineers are compensated at three per cent (3%). As such, the Manager sought to clarify that the interim payment towards the consultancy fee contributes to overall project.

35. On the ownership of the project by NHIF vis-à-vis its mandate as provided in the NHIF Act of 1998, the Project Manager referred to the Act which states that; -

34. (1) All moneys in the Fund which are not immediately required to be applied for the purposes of this Act shall be invested:

a. In such investment in a reputable bank, being an investment in which trust funds, or part thereof, are authorized by law to be invested;

b. In the procurement and acquisition of essential medical equipment for provision to hospitals, on such terms and conditions as the Board may, from time to time, prescribe;

Provided that the Board may advance money to any declared hospital for improvement of medical and health care services, subject to the Board being satisfied that such hospital is financially viable and in any underserved area, as may from time to time, be defined by the Minister.

(2) All investments made under this section shall be held in the name of the Board.

36. With the foregoing, the Manager concluded that the proposed project has a component of medical equipment and hospital furniture constituting about thirty five percent (35%) of the overall investment in the project. To comply with Section 34, sub-section 34(1) (b) of the Act, contribution by NHIF to this investment can be deemed to be confined to medical equipment and

hospital furniture provisions so that the relative cost of this component, to the overall project cost is not more than 35%. Further, that the Ministry of Health may structure the ownership in such a way that NHIF is given a stake in the project which is commensurate to its input in meeting the initial financial requirements to start off the implementation programme.

4.0 COMMITTEE OBSERVATIONS

37. The Committee observed that:-

1. The proposed NHIF Resource Centre at Karen was commissioned in April, 2002 prior to the enactment of the Public Procurement and Disposal Act, 2005 and that the law in force, in relation to procurement and disposal of public goods, services and works was the Exchequer and Audit (Public Procurement) Regulations, 2001.

Regulation 3 of the Regulations provided that the Regulations apply to all public procurement entities with the exception of where the Minister decides that it is in the interest of national security or national defense to use a different procedure in which case the Minister is to define the method. *Further, Regulation 6 of the Exchequer and Audit (Public Procurement) Regulations, 2001 requires that:-*

- i. Procuring entities, and within each entity the accounting officer and any officer to whom the accounting officer delegates such responsibility, are responsible and accountable for action taken subject to the provisions of these regulations and to any such instructions regarding the implementation of these regulations as may be given in circulars by the Public Procurement Directorate.*
- ii. Procurement decisions of any procuring entity shall be taken in a corporate manner, so that internal units concerned shall have a say in the decision shall be taken in a structured manner.*
- iii. For the purpose of this regulation every procuring entity shall establish tender committee in the manner set out in the First Schedule.*

The Fund, therefore, being a public entity in 2002 when the project was commissioned was covered by the above regulations and as such the management picked consultants from a previously determined prequalified list.

2. The inception of the project was unprocedural as the commissioning of the consultants during the initial stage of the project was without requisite approvals from the Board and the Ministries of Health and Finance in accordance with Section 11 and 12 of the State Corporations Act. As a result, failed to comply with the law or the applicable procedures and guidelines relating to undertaking of projects by public institutions.
3. The pending bills of Ksh. 5.659 Billion are the cumulative fees given as fee notes in lump sum in case the project does not proceed to completion. Nevertheless, consultant fees are paid in stages with Ksh 1.4Billion (excluding purchase of land and legal fees) already paid as interim fees for the Centre of Excellence. Further the fee paid to consultants was based on the Fourth Schedule of the Architects and Quantity Surveys Act, CAP 525 of Kenya and not the Ministry of Works conditions. The implication of this, therefore, is that the consultants' rates are higher than if the rates were pegged on the Ministry of Works conditions. The architectural fees however was found to be justifiable and in line with CAP 525. The Project Manager was however not convinced on some of the figures quoted by the consultants.
4. The proposed Karen Centre of Excellence as a Vision 2013 flagship project has transformed from resource centre, then to a referral centre and ultimately to the centre of excellence as it is known today. This implies that the cost of the project is likely to escalate beyond the envisaged Ksh 24Billion given the unplanned costs arising from review of the project plans.
5. The question as to whether the NHIF has the mandate to invest in a project like the Karen Centre of Excellence requires a clear definition in law. The law, as it is currently, does not explicitly provide or prohibit investment in buildings. Section 34 of the NHIF Act of 1998 states as follows with regard to investments in the improvement of medical and health care services;-
34. (1) All moneys in the Fund which are not immediately required to be applied for the purposes of this Act shall be invested:
 - a) *In such investment in a reputable bank, being an investment in which trust funds, or part thereof, are authorized by law to be invested;*
 - b) *In the procurement and acquisition of essential medical equipment for provision to hospitals, on such terms and conditions as the Board may, from time to time, prescribe;*

The Sub-Clause further gives a rider that provides that “*The board may advance money to any declared hospital for improvement of medical and health care services, subject to the Board being satisfied that such hospital is financially viable and in any underserved area, as may from time to time, be defined by the Minister.*”

6. The proposed project has a component of medical equipment and hospital furniture constituting about 35% of the overall investment in the project. As it is, therefore, the investment by NHIF in the Karen Centre of Excellence can only be deemed to be in relation to medical equipment and hospital furniture. This implies that any investment or ownership of the facility will be contrary to subsection 34(i) (b) of the Act.
7. The Ministry of Health has been involved in the project over the years without a clear ownership framework.
8. The project is one of the Ministry’s Vision 2030 flagship projects. Further, national referral health facilities are a function of the national government. Further to this, health matters at the national level are vested upon the Ministry of Health and as such the Ministry should take the ownership in such a way that NHIF is given a stake in the project which is commensurate to its input in meeting the initial financial contribution.
9. The financing of the project is to be undertaken through the following ways;
 - (i) Through budget allocation where the Government is expected to allocate funds for infrastructure Development at the Centre;
 - (ii) Public-Private Partnerships (PPP) where medical equipment and operationalization of the hospital are to be undertaken through PPP. In this case, the hospital and training institute lease equipment from the manufacturers and sign maintenance agreements for a period to be informed by best practices in the area.
 - (iii) Private Sector operatives where management and maintenance component is to be funded by the private sector operators and joint venture operations with training institute; and
 - (iv) The Build, Operate and Transfer (BOT) financing model to provide for hostels, auditoriums, car-parks and other facilities.

5.0 RECOMMENDATIONS

38. In view of the foregoing, the Committee recommends that: -

1. **The Karen Centre of Excellence, which was identified as a Vision 2030 project, should proceed expeditiously owing to its strategic intervention and rationale and to avoid further losses due to delay or termination.**
2. **The Ministry of Health to take over the implementation of the flagship project to completion including ownership and reimburse NHIF all monies contributed to the project to date, that have been invested contrary to the NHIF Act CAP 255.**
3. **The Ministry of Health to work closely with the Public- Private Partnership (PPP) Secretariat, Ministry of Finance, in following through with the financing proposals for funding to guarantee full operationalization of the project.**
4. **The Project to be completed in a maximum of five years so as to ensure that the indicative payback period of eight and a half years is realized.**

6.0 ANNEXES

MINUTES OF THE 45TH SITTING OF DEPARTMENTAL COMMITTEE ON HEALTH, HELD IN COMMITTEE ROOM ON 2ND FLOOR, PROTECTION HOUSE, PARLIAMENT BUILDINGS ON TUESDAY, 17TH JUNE, 2014 AT 10.00AM.

PRESENT

- | | | |
|---------------------------------------|---|---------------------------------------|
| 1. The Hon. Dr. Rachel Nyamai, M.P | - | Chairperson |
| 2. The Hon. Dr. Robert Pukose, M.P | - | Vice-Chairperson |
| 3. The Hon Hassan Aden Osman, M.P. | | 10. The Hon. Dr. Stephen Wachira, M.P |
| 4. The Hon. Dr. David Eseli, M.P | | 11. The Hon. Dr. Susan Musyoka, M.P |
| 5. The Hon. Dr. Enoch Kibunguchy, M.P | | 12. The Hon. James Gakuya, M.P |
| 6. The Hon. Dr. James Gesami, M.P | | 13. The Hon. Zipporah Kering, M.P |
| 7. The Hon. Dr. James Murgor, M.P | | 14. The Hon. Raphael Otaalo, M.P |
| 8. The Hon. Dr. James Nyikal, M.P | | 15. The Hon. Mwinga Gunga, M.P |
| 9. The Hon. Stephen M. Mule, M.P | | |

ABSENT WITH APOLOGY:

- | | | |
|---------------------------------------|--|---------------------------------------|
| 16. The Hon. Alfred Agoi, M.P | | 23. The Hon. John Nyaga Muchiri, M.P |
| 17. The Hon. Christopher Nakuleu, M.P | | 24. The Hon. Paul Koinange, M.P |
| 18. The Hon. David Karithi, M.P | | 25. The Hon. Kamande Mwangi, M.P |
| 19. The Hon Dr. Dahir Mohamed, M.P | | 26. The Hon. Leonard Sang, M.P |
| 20. The Hon. Joseph O. Magwanga, M.P | | 27. The Hon. Dr. Patrick Musimba, M.P |
| 21. The Hon. Dr. Naomi Shaban, M.P | | 28. The Hon. Michael Onyura, M.P |
| 22. The Hon. Fred Outa, M.P | | 29. The Hon. Mwahima Masoud, M.P |

IN ATTENDANCE:

National Assembly Secretariat

- | | | |
|---------------|---|-----------------------|
| Susan Maritim | - | First Clerk Assistant |
| Nebert Ikai | - | Third Clerk Assistant |
| Ronald Walala | - | Legal Counsel |
| Peter Mwaura | - | Legal Counsel |

AFIDEP

- Jones Abisi
Rose Oronje
Samson Wasao

MIN. NO DCH 199/2014: PRELIMINARIES

The meeting was called to order at 10.20am with a word of prayer by Hon. James Gakuya, MP. A round of introductions was thereafter conducted.

MIN. NO DCH 200/2014: MEETING WITH AFRICAN INSTITUTE FOR POLICY DEVELOPMENT

The Committee met with AFIDEP, an NGO that had requested to meet the Committee to introduce themselves and share with the Committee, its SECURE Health Programme.

About SECURE Health

SECURE Health is a three year programme running from Nov 2013-Oct 2016, that aims to work with the Parliament and the Ministry of Health to design and implement interventions that optimise the use of data and research evidence in health-related policy decision-making.

SECURE Health, is built on the premise that rigorous data and research evidence are central to Kenya's attainment of the health aspirations and goals set out in the country's 2012-2030 Health Policy, the Vision 2030, and the 2010 Constitution. To support the realization of these aspirations and goals, *SECURE Health* plans to work with both top-level and mid-level policy makers in identifying capacity gaps, challenges, and designing and implementing responsive interventions. Such support will strengthen leadership, motivation, and skills needed to enable data and research evidence utilization in health sector policy formulation, planning and programming.

SECURE Health programme aims to:

- Optimize leadership among high-level policymakers for the use of evidence in health policy.
- Enhance capacity of mid-level policy makers in the health ministry and the legislature in accessing, appraising, adapting, synthesizing, presenting and using evidence.
- Strengthen organizational systems and support for the use of research evidence in policymaking

Issues raised by the Committee

The Committee lauded AFIDEP for its efforts in bridging the gap between research and policy implementation by using evidence in its policy and law making. The Committee however raised the following issues:-

i. Who funds AFIDEP?

The Committee was informed that AFIDEP is funded by international donors e.g DFID

ii. There is indeed a gap between research findings and policy implementation. This is mainly attributed to the evidence being so technical that the implementers are unable to digest the information. The solution therefore lies in packaging the information in a simple, brief format.

iii. Committee Priorities

- Devolution – solutions to challenges facing Devolution of health services in Kenya
- Social Health Insurance
- Other emerging issues in healthcare

- Evidence-based budget making
- iv. On how AFIDEP plans to engage the Committee, it was reported that the organization is seeking for funding with a bid to facilitate Health Committee members of the UK and Malawian Parliaments to conduct exchange visits to share experiences with each other.
- v. The Committee also expressed concern on the benefits of the Programme and its sustainability.

WAY FORWARD:

It was resolved that there is need for further engagement with AFIDEP for the Committee to fully benefit from its Programme.

MIN. NO DCH 201/2014: CONSIDERATION OF NHIF REPORT – WAY FORWARD FOR KAREN CENTRE OF EXCELLENCE

The Committee proposed an amendment to Recommendation 2 of the Report.

Hon. Dr. James Nyikal, MP proposed deletion of the word "take over" and substitute with the word "take over". This was Seconded by Hon. Dr. Robert Pukose, MP.

Hon. Dr. David Eseli, MP proposed amendment to delete the word "after" and substitute therefore with the word "and". This was Seconded by Hon. Zipporah Kering, MP.

The Report was thus unanimously adopted the NHIF Report on the Way Forward for the Karen Centre of Excellence. This was Proposed by Hon. Stephen Mule, MP and Seconded by Hon. Dr. Robert Pukose, MP.

MIN. NO DCH 202/2014 CONSIDERATION OF KENYA NATIONAL AIDS AUTHORITY BILL, 2014

The Committee considered Memorandum from the Attorney General in relation to the Bill.

The Committee therefore proposed the following amendments to the Bill: -

Clause 11

THAT Clause be amended as follows:

- i. In sub-clause (2), delete the word 'one person nominated by' appearing after the word 'of'
- ii. In paragraph (a) of sub-clause (2) substitute the words 'one person nominated by' immediately before 'the'.
- iii. In paragraph (b) of sub-clause (2) substitute the words 'one person nominated by' immediately before 'the'.

- iv. In paragraph (c) of sub-clause (2) substitute the words 'one person nominated by' immediately before 'the'.
- v. In paragraph (d) of sub-clause (2) substitute the words 'one person nominated by' immediately before 'the'.
- vi. In paragraph (e) of sub-clause (2) substitute the words 'three persons nominated by' immediately before 'a'
- vii. In paragraph (f) of sub-clause (2) substitute the words 'one person nominated by' immediately before 'the'
- viii. In sub-clause (2), delete paragraph (g) and substitute therefor the following new paragraph '(g) one person nominated by the Kenya Medical Association'.
- ix. In sub-clause of (15) of (11) substitute the words 'and persons living with HIV and AIDS' after the word 'disabilities'.

Clause 16

In sub-clause (1) of (16), substitute the words 'for a period of 3 years, renewable once'

Clause 21

THAT Clause 21 be amended by

- i. Deleting paragraph (b) of sub-clause (1).
- ii. Deleting the words ' by virtue of paragraph 12 of the National AIDS Control Council Order, 1999' appearing between the words 'Parliament' and 'for' in sub-clause (2).

Clause 25

THAT Clause 25 be amended by:

- i. Deleting the entire sub-clause (1) and substituting therefor the following new clause 'Upon the advise of the Cabinet Secretary responsible for HIV and AIDS or other disasters, the

President, may by notice in the Gazette, declare HIV and AIDS as a national disaster among other disasters.'

- ii. That Clause 26(2) be amended by deleting the whole sub-clause and substituting therefor the following new sub-clause 'Upon a declaration under subsection (1), the national government shall make appropriate and necessary budgetary provisions to fund and support the fight against HIV and AIDS.'

Clause 27

THAT Clause 27 (3)(a) be amended by deleting the words 'Authority may' appearing immediately after the word 'The' and substituting therefor the words 'Cabinet Secretary in consultation with the Authority may,'

Clause 28

THAT sub-clause (2) be amended by deleting the words 'in accordance with Section 21(2) of this Act'.

The Committee resolved to meet at 4pm same day, to adopt the Report on the Bill.

MIN. NO DCH 203/2014 ADJOURNMENT

1. Statute Law Miscellaneous Amendment Bill, 2014

The Committee resolved to consider amendments to the NHIF Board as proposed in the Statute Law Miscellaneous Amendment Bill, 2014.

KNUT has written to the Committee protesting exclusion of its representative from the Board. CHAK and KMA have also made the same protest.

2. Delegations for Foreign Visits

The Committee nominated Members to travel as follows:-

BAT Visit to the UK (August 2014)

1. Hon. Dr. Robert Pukose, MP
2. Hon. Hassan Osman, MP
3. Hon. James Gakuya, MP
4. Hon. Dr. David Eseli, MP
5. Hon. Zipporah Jesang, MP

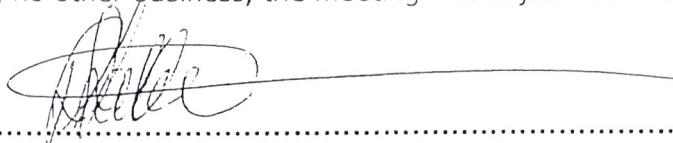
Study Visit to Cuba & Canada (TBC but planned for August 2014)

1. Hon. Dr. Rachael Nyamai, MP
2. Hon. Dr. David Eseli, MP
3. Hon. Dr. James Murgor, MP
4. Hon. Dr. Enoch Kibunguchy, MP
5. Hon. Mwinga Gunga, MP
6. Hon. Dr. Naomi Shaban, MP
7. Hon. Stephen Mule, MP
8. Hon. James Gakuya, MP
9. Hon. Zipporah Jesang, MP
10. Hon. Hassan Osman, MP.

The Committee resolved that in response to the BAT Invitation to undertake the visit to the Research and Development Centre in Southampton, UK, it should be made clear that while the Committee supports Tobacco Control Law, it is agreeable to undertake the visit for information purposes only.

MIN. NO DCH 204/2014 ADJOURNMENT

There being no other business, the meeting was adjourned at 11.30am.



SIGNED.....

HON (DR.) RACHEAL NYAMAI, M.P
(Chairperson)

DATE..... 18/06/14

MINUTES OF THE 44TH SITTING OF DEPARTMENTAL COMMITTEE ON HEALTH, HELD IN MEDIA CENTER, MAIN PARLIAMENT ON THURSDAY, 12TH JUNE, 2014 AT 10.00AM.

PRESENT

- | | | |
|---------------------------------------|---|---|
| 1. The Hon. Dr. Robert Pukose, M.P | - | Vice-Chairperson (Chaired Meeting) |
| 2. The Hon Dr. Dahir Mohamed M.P | | 12. The Hon. Dr. Stephen Wachira, M.P |
| 3. The Hon Hassan Aden Osman, M.P. | | 13. The Hon. Dr. Susan Musyoka, M.P |
| 4. The Hon. Christopher Nakuleu, M.P | | 14. The Hon. Fred Outa, M.P |
| 5. The Hon. David Karithi, M.P. | | 15. The Hon. John Nyaga Muchiri, M.P |
| 6. The Hon. Dr. David Eseli, M.P | | 16. The Hon. Kamande Mwangi, M.P |
| 7. The Hon. Dr. Enoch Kibunguchy, M.P | | 17. The Hon. Leonard Sang, M.P |
| 8. The Hon. Dr. James Gesami, M.P | | 18. The Hon. Raphael Otaalo, M.P |
| 9. The Hon. Dr. James Murgor, M.P | | 19. The Hon. Mwinga Gunga, M.P |
| 10. The Hon. Dr. James Nyikal, M.P | | 20. The Hon. Paul Koinange, M.P |
| 11. The Hon. Dr. Stephen M. Mule, M.P | | |

ABSENT WITH APOLOGY:

- | | | |
|---------------------------------------|---|-----------------------------------|
| 21. The Hon. Dr. Rachel Nyamai, M.P | - | Chairperson |
| 22. The Hon. Alfred Agoi, M.P | | 26. The Hon. James Gakuya, M.P |
| 23. The Hon. Christopher Nakuleu, M.P | | 27. The Hon. Michael Onyura, M.P |
| 24. The Hon. Dr. Naomi Shaban, M.P | | 28. The Hon. Mwahima Masoud, M.P |
| 25. The Hon. Dr. Patrick Musimba, M.P | | 29. The Hon. Zipporah Kering, M.P |

IN ATTENDANCE:

National Assembly Secretariat

- | | | |
|---------------|---|-----------------------|
| Susan Maritim | - | First Clerk Assistant |
| Nebert Ikai | - | Third Clerk Assistant |
| Hassan Arale | - | Third Clerk Assistant |

MIN. NO DCH 195/2014: PRELIMINARIES

The meeting was called to order at 10.00am with a word of prayer by Hon. Dr. Robert Pukose, MP.

MIN. NO DCH 196/2014: CONSIDERATION OF NHIF REPORT – WAY FORWARD FOR KAREN CENTRE OF EXCELLENCE

The Committee continued with consideration of NHIF Report, and made the following amendments :-

- i. Paragraph 6 to merge with 7 and paragraph starting with “the sale agreement” to become 7.

- ii. Paragraph 23 – establish existence of “the Development Bank of Kenya”. It was established that indeed the Development Bank of Kenya does indeed exist.
- iii. Paragraph 30 - replace 24ha with 9.25ha.
- iv. Paragraph 30: insert “ (iii) That the land is not fenced.”
- v. Paragraph 34 remove “of” and replace it with “is”
- vi. On Recommendations, The Committee resolved to amend No.2 to read **“The Ministry of Health to oversee the implementation of the flagship project to completion including ownership after reimbursing NHIF all monies contributed to the project to date that have been invested contrary to the NHIF Act CAP 255.”**

The Report will be adopted in the next meeting.

MIN. NO DCH 197/2014 PENDING BUSINESS BEFORE THE COMMITTEE

The Committee reviewed pending business before the Committee as follows: -

1. Bills

Published Bills

- i. **Statute Law Miscellaneous Amendment Bill, 2014** (KNUT protesting exclusion from NHIF Board)

The Committee also heard that Kenya Medical Association (KMA), Christian Health Association of Kenya (CHAK) and Catholic Church have proposed amendments to the Bill.

The Committee will consider the matter and propose amendments.

- ii. **Kenya National AIDS Authority Bill, 2014 (Hon. Opiyo)** – *Awaiting Report adoption.*
- iii. **Mental Health Bill, 2014** – Hon. Lekuton
- iv. **Traditional Practitioners Health Bill, 2014** – Hon. R. Nyamai
- v. **Diabetes Management Bill, 2014** – Hon. R. Nyamai

Pre-Publication Scrutiny

Malaria Prevention Bill, 2014

2. Statements

Statement No.140/2014 requested by **Member for Maara Constituency (Hon. Kareke Mbiuki, M.P.)** to the Chairperson of the Departmental Committee on Health regarding failure by the National Hospital Insurance Fund to reimburse medical claims submitted by mission hospitals.

3. Petition

Petition by Members of Kenya Medical Laboratory Technicians and Technologists Board regarding the Pharmacy and Poisons (Amendment) Bill, 2014 – Request presented by Speaker on 3rd June, 2014

The Committee has 60 days to report back to the House.

4. Reports

- i. NHIF - Karen & Reform of NHIF
- ii. MTRH
- iii. Visits to health facilities in Kakamega, Kisumu, Mombasa & Kilifi Counties
- iv. 67th WHA Report

5. Requests by Stakeholders

- i. **Request by the Nursing Council of Kenya:** Regulation of medical devices and clinical trials by the Pharmacy and Poisons Board – Legal Notice No. 192 of 2010 and Gazette Notice No. 1879 of 2014 –Matter to be jointly handled by Health Committee and Delegated Legislation Committee.
- ii. **Request by BAT Kenya:** Meeting to discuss Tobacco Control Regulations, 2014 – 19th June, 2014 (it was resolved that the meeting be held in the week of 23rd June, 2014).

6. Upcoming Foreign Travel

- i. BAT sponsored visit to the Research & Development Center in Southampton, UK in July, 2014.
- ii. Study tour to Canada and Cuba, TBC but tentatively August/September, 2014
- iii. NEAPACOH, Uganda, 8 – 12 September, 2014
- iv. UN General Assembly Special Session, New York, USA in Sept 2014

The Committee will nominate Members of the Delegation in the next meeting.

MIN. NO DCH 198/2014 ADJOURNMENT

There being no other business, the meeting was adjourned at 11.30am.

SIGNED.....

HON (DR.) ROBERT PUKOSE, M.P
(Vice Chairperson)

DATE.....18/06/2014.....

MINUTES OF THE 40TH SITTING OF THE DEPARTMENTAL COMMITTEE ON HEALTH, HELD ON WEDNESDAY, 28TH MAY, 2014 IN 2ND FLOOR COMMITTEE ROOM, PROTECTION HOUSE, PARLIAMENT BUILDINGS AT 3:00 PM PRESENT

- | | | |
|--------------------------------------|---|--------------------------------------|
| 1. The Hon. Dr. Rachel Nyamai, M.P | - | Chairperson |
| 2. The Hon. David Karithi, M,P | | 8. The Hon. Fred Outa , M.P |
| 3. The Hon. Dr, Naomi Shaban, M.P | | 9. The Hon. James Gakuya, M.P |
| 4. The Hon. Dr. David Eseli, M.P | | 10. The Hon. Joseph O. Magwanga, M.P |
| 5. The Hon. Dr. James Murgor, M.P | | 11. The Hon. Kamande Mwangi, M.P |
| 6. The Hon. Dr. James Nyikal, M.P | | 12. The Hon. Leonard Sang, M.P |
| 7. The Hon. Dr. Stephen Wachira, M.P | | 13. The Hon. Stephen M. Mule, M.P |

ABSENT WITH APOLOGY:

14. The Hon. Dr. Robert Pukose, M.P-
Vice-Chairperson

- | | |
|--|---|
| 15. The Hon. Alfred Agoi, M.P | 23. The Hon. Leonard Sang, M.P |
| 16. The Hon. Christopher Nakuleu, M.P | 24. The Hon. Michael Onyura, M.P |
| 17. The Hon. Dr. Dahir Mohamed, M.P | 25. The Hon. Mwahima Masoud, M.P |
| 18. The Hon. Dr. Enoch Kibunguchy, M.P | 26. The Hon. Mwinga Gunga, M.P |
| 19. The Hon. Dr. James Gesami, M.P | 27. The Hon. Paul Koinange, M.P |
| 20. The Hon. Dr. Patrick Musimba, M.P | 28. The Hon. Raphael Milkau Otaalo, M.P |
| 21. The Hon. Dr. Susan Musyoka, M.P | 29. The Hon. Zipporah Kering, MP |
| 22. The Hon. John Nyaga Muchiri, M.P | |

IN ATTENDANCE:

National Assembly Secretariat

- | | | |
|---------------|---|-------------------------|
| Susan Maritim | - | First Clerk Assistant |
| Marale Sande | - | Senior Research Officer |
| Nebert Ikai- | - | Third Clerk Assistant |
| Hassan Arale | - | Third Clerk Assistant |

MIN. NO DCH 185/2014: PRELIMINARIES

The meeting was called to order at 3.00pm with a word of prayer by Hon. Dr. Stephen Wachira, MP.

MIN. NO DCH 186/2014: REPORT ON THE WAY FORWARD FOR THE NATIONAL HOSPITAL INSURANCE FUND'S PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

The Committee considered the Report on the way for NHIF's Proposed Karen of Excellence and made the following comments:

- i. "Karen" should be inserted in the Report Title
- ii. There is need for further clarification on the figures showing how much was paid was paid to consultants vis-à-vis the Arbitrator's Award (pg. 16)
- iii. Combine paragraphs 18 and 19.
- iv. Delete mention of personalities e.g Richard Kerich in paragraph 26 and James Macharia in paragraph 28.
- v. On Observations and Findings, it was resolved that there is need to insert paragraphs on the visit to Karen and the meeting with the Project Manager.
- vi. On Recommendations, it was unanimously resolved that the Ministry of Health should take ownership of the project and that the project should proceed expeditiously to avoid further loses due to delay or termination. However, on the matter of NHIF's stake in the ownership, it was resolved that a legal opinion be sought to protect NHIF's interests in the new ownership structure. 2.the project ownership remains with the ministry of health with legal opinion on the transitional way being sought from the legal department .

MIN. NO DCH 187/2014 ADJOURNMENT

There being no other business, the meeting was adjourned at 6.15 P.M

SIGNED.....

HON (DR.) RACHEL NYAMAI, M.P
(Chairperson)

DATE...10.10.2014.....

MINUTES OF THE 39th SITTING OF THE HEALTH COMMITTEE HELD IN MEMBERS LOUNGE, MAIN PARLIAMENT BUILDINGS ON TUESDAY, 27TH MAY, 2014 AT 02:30PM

PRESENT

1. **The Hon. Dr. Rachel Nyamai, M.P**
- **Chairperson**
2. The Hon. Dr. David Eseli, M.P
3. The Hon. Leonard Sang, M.P
4. The Hon. Fred Outa, M.P
5. The Hon. James Gakuya, M.P
6. The Hon. Joseph Magwanga, M.P
7. The Hon. David Karithi, M.P
8. The Hon. Dr. James Murgor, M.P
9. The Hon. Dr. Naomi Shaban, M.P
10. The Hon. Dr. Stephen Wachira, M.P
11. The Hon. John Nyaga Muchiri, M.P
12. The Hon. Paul Koinange, M.P
13. The Hon. Dr. Stephen M. Mule, M.P

ABSENT WITH APOLOGY:

14. The Hon. Dr. Robert Pukose, M.P -
Vice-Chairperson
15. The Hon. Alfred Agoi, M.P
16. The Hon. Zipporah Kering, M.P
17. The Hon. Dr. Patrick Musimba, M.P
18. The Hon. Dr. Dahir Mohamed, M.P
19. The Hon. Dr. Enoch Kibunguchy, M.P
20. The Hon. Dr. James Nyikal, M.P
21. The Hon. Dr. James Gesami, M.P
22. The Hon. Dr. Susan Musyoka, M.P
23. The Hon. Kamande Mwangi, M.P
24. The Hon. Leonard Sang, M.P
25. The Hon. Christopher Nakuleu, M.P
26. The Hon. Michael Onyura, M.P
27. The Hon. Mwahima Masoud, M.P
28. The Hon. Mwinga Gunga, M.P
29. The Hon. Raphael Milkau Otaalo, M.P

IN ATTENDANCE:

National Assembly Secretariat

Marale Sande - Senior Research Officer
Nebert Ikai- Third Clerk Assistant
Hassan Arale - Third Clerk Assistant

NHIF Project Manager

Mr. Nyagah Kithinji

MIN. NO DCH 180/2014 PRELIMINARIES

The meeting was called to order at 2.30pm and a word of prayer said by Hon. Joseph Magwanga, MP. This was followed by a round of introductions.

MIN. NO DCH 181/2014 CONFIRMATION OF MINUTES

Confirmation of minutes of the previous meeting was deferred to the next sitting

MIN. NO DCH 182/2014 MEETING PROJECT MANAGER: KAREN CENTER OF EXCELLENCE

The Committee held a brief meeting with the Project Manager, Mr. Nyagah B. Kithinji, with the view of seeking clarifications on some of the issues regarding the Karen Centre of Excellence. The following is a summary of the issues:

BACKGROUND INFORMATION ON KAREN CENTRE OF EXCELENCE

1. The project was proposed in 2001 as a Health care Resource Centre with accredited hospitals and NHIF as participants. The Purpose for the project was to support delivery of essential medical services, education and capacity building for various professional in the management of the health sector. The initial plan was to have the project consist of medium sized health medical centre for demonstration, training facilities' central stores for NHIF records and recreational facilities',
2. In 2006, however, the project was up scaled to a referral medical centre and training institute in consultation with the Ministry of Medical services with the sole purpose of being an adjunct to accredited hospital for diagnostic capacity, a clearing house for advanced medical technologies among others. The initiative was upgraded further to a medical centre of excellence in Kenya to assist the Country to respond to emerging diseases and increasing disease burden in addition to leveraging on the emerging market in medical tourism. It was expected that the foregoing will match other centres of excellence in the world in diagnostics and treatment and reverse the flow of Kenyan patients to India, South Africa and other medical destinations for specialized treatment, as well as to make Kenya a regional medical tourism destination. Also, the project was to supplement the universities and middle level medical colleges in training more cadre to bridge the gap between the annual addition of trained personnel into the medical field and the persistent shortfall of personnel.
3. On the current status of the project, it is regarded as one of the health sector flagship vision 2030 projects of the national government with the following distinct components, a medical centre, a training institute, administration building and support facilities with facilities ranging from outpatient services, Accident and Emergency, Physio and Hydrotherapy areas, Cancer treatment centre with 2No MRI, 30 operating theaters, 10 X-Ray Rooms and 9 ultrasound rooms. Others include, 3 CT Scan Rooms, a 26 bed ICU, 12 bed HDU, 6 bed special care unit, a dialysis centre, an 815 bed capacity inpatient ward, specialized doctors clinics, fertility centre and a recuperation center.
4. On the status of the design, the consultants, that is, the architectural designers, civil and structural engineering designers and mechanical and electrical engineering designers and quantity surveyors have completed their designs including developing a business plan. The project therefore is ready for tendering with estimated construction cost expected at Ksh 24.62Billion.

5. On the feasibility studies, business plan and project concept paper, the Ministry of Finance, vide communications dated 27th and 28th April 2012, ref ZZ/MOF/253/016 "K" indicated that the 'Karen project is very suitable for the PPP procurement and could be used as a pilot project for health PPP. As such, Treasury advised that feasibility studies, business plan and concept paper be done and to include the following aspects in liaison with the Director of PPP Secretariat at the Ministry of Finance:
 - i. Restructure the project in three phases highlighting medical specialties and revenue creation centres for settlement of payments to the private sector investors under the PPP.
 - ii. Restructuring the project for appropriate investment and financing options
 - iii. Health market survey and socio-economic studies
 - iv. Capital costs and revenues
 - v. Financial viability of the project
6. It was therefore envisioned in the plan that the payback period of eight and a half years ,average annual rate of return of 18.84% and internal rate of return (IRR) of 14.85%.
7. On the outstanding work with completion of all the design work, construction ought to commence. To progress implementation, therefore, the Project Manager informed the Committee that, the Ministry of Health and Finance will be required to:
 - i. Validate the feasibility study, structure of the project while providing the ethical, legal and financial support for the procurement of private partners for the components that will run the PPP and BOT;
 - ii. Identify partners and firm up partnership agreements with potential joint venture investors and BOT contractors;
 - iii. Start infrastructure component of Phase 1 of the Project;
 - iv. Conclude negotiations with China Development Bank for a loan to finance part of the infrastructure development;
 - v. The Ministry to develop a comprehensive policy framework of referral and super specialty hospitals for effective management of the national referral system
8. On the financing proposal of the project, several components of the project were to be financed using different modalities. For example infrastructure development financing is through government budget allocation and a soft loan (long term, low interest) with government guarantee. Towards this end, the Development Bank of China did express interest in financing the project and signed a Memorandum of Understanding with the Office

of the Prime Minister in the last Government. It designated the Development Bank of Kenya as its local representative and disbursing agency and discussions began but they were not concluded. The offer can be revived and followed to conclusion.

- 9.** As regards medical equipment and operationalization of the hospital, it is proposed that this component be financed through a strategic partnership (PPP) with equipment manufacturers whereby the Hospital and Training Institute lease equipment from the manufacturers and sign maintenance agreements for a period to be informed by best practices in the area. The component may also be financed by NHIF as an investment in the project as provided for in Section 34(2) of the National Hospital Insurance Fund Act 9 of 1998.
- 10.** Management and maintenance component of the project is expected to be run through management contracts with private sector operators and joint venture operations with training institutions for the Training Institute e.g. the Chinese system of affiliation of hospitals to universities where universities get space, equipments and a hospital to train their students and in turn offer consultants and students to run part of the services in the hospital is recommended.
- 11.** The Build, Operate and Transfer (BOT) Financing Model is recommended to be considered for provision of the hostels, auditorium equipment, car parks etc.
- 12.** The Project Manager further clarified the matter of professional fees where it was indicated that the project has been designed by local professionals and has undergone various changes since it was first commissioned in 2002. However, fees are charged on the final version of the project. Although the bulk of the fees are payable at the conclusion of the design stage of the project, the consultants would be agreeable that the fees be paid in installments in order to spread the financial burden of the project and achieve an early commencement of project implementation. The payment is on a declining balance where the Architect is paid at six percent (6%), the Quantity Surveyor at three point five percent (3.5%), Structural Engineers' rate is pegged at 3.25% on sliding scale while the Mechanical and Electrical Engineers are compensated at three per cent (3%). As such, the Manager sought to clarify that the interim payment towards the consultancy fee contributes to the centre of excellence.
- 13.** On the ownership of the project by NHIF vis-à-vis its mandate as provided in the NHIF Act of 1998, the Project Manager referred to the Act which states that;

34. (1) All moneys in the Fund which are not immediately required to be applied for the purposes of this Act shall be invested:

- a. In such investment in a reputable bank, being an investment in which trust funds, or part thereof, are authorized by law to be invested;
- b. In the procurement and acquisition of essential medical equipment for provision to hospitals, on such terms and conditions as the Board may, from time to time, prescribe;

Provided that the Board may advance money to any declared hospital for improvement of medical and health care services, subject to the Board being satisfied that such hospital is financially viable and in any underserved area, as may from time to time, be defined by the Minister.

(2) All investments made under this section shall be held in the name of the Board.

14. With the foregoing, the Manager concluded that the proposed project has a component of medical equipment and hospital furniture constituting about thirty five per cent (35%) of the overall investment in the project. To comply with Section 34, sub-section 34(1) (b) of the Act, contribution by NHIF to this investment can be deemed to be confined to medical equipment and hospital furniture provisions so that the relative cost of this component, to the overall project cost is not more than 35%. Further, that the Ministry of Health may structure the ownership in such a way that NHIF is given a stake in the project which is commensurate to its input in meeting the initial financial requirements to start off the implementation programme.

MIN. NO DCH 183/2014 ANY OTHER BUSINESS

Report on NHIF' Capacity to roll out Universal Health Care was set to be discussed on Wednesday afternoon at 2.30pm

MIN. NO DCH 184/2014 ADJOURNMENT

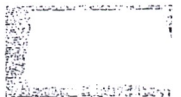
There being no other business, the meeting was adjourned at 5.00 P.M until, 2.

SIGNED.....

HON (DR.) RACHEL NYAMAI, M.P

(Chairperson)

DATE..10/06/2014.....



MINUTES OF THE 38TH SITTING OF THE HEALTH COMMITTEE HELD IN MEMBERS LOUNGE, MAIN PARLIAMENT AT ON TUESDAY, 27TH MAY, 2014 AT 10.30AM.

PRESENT

- | | | |
|---|----------|---------------------------------------|
| 1. The Hon. Dr. Rachel Nyamai, M.P | - | Chairperson |
| 2. The Hon. Dr. David Eseli, M.P | | 8. The Hon. Dr. James Murgor, M.P |
| 3. The Hon. Leonard Sang, M.P | | 9. The Hon. Dr, Naomi Shaban, M.P |
| 4. The Hon. Fred Outa , M.P | | 10. The Hon. Dr. Stephen Wachira, M.P |
| 5. The Hon. James Gakuya, M.P | | 11. The Hon. John Nyaga Muchiri, M.P |
| 6. The Hon. Joseph Magwanga, M.P | | 12. The Hon. Paul Koinange, M.P |
| 7. The Hon. David Karithi, M,P | | 13. The Hon. Dr. Stephen M. Mule, M.P |

ABSENT WITH APOLOGY:

- | | | |
|--|----------|---|
| 14. The Hon. Dr. Robert Pukose, M.P | - | Vice-Chairperson |
| 15. The Hon. Alfred Agoi, M.P | | 23. The Hon. Kamande Mwangi, M.P |
| 16. The Hon. Zipporah Kering, M.P | | 24. The Hon. Leonard Sang, M.P |
| 17. The Hon. Dr. Patrick Musimba, M.P | | 25. The Hon. Christopher Nakuleu, M.P |
| 18. The Hon. Dr. Dahir Mohamed, M.P | | 26. The Hon. Michael Onyura, M.P |
| 19. The Hon. Dr. Enoch Kibunguchy, M.P | | 27. The Hon. Mwahima Masoud, M.P |
| 20. The Hon. Dr. James Nyikal, M.P | | 28. The Hon. Mwinga Gunga, M.P |
| 21. The Hon. Dr. James Gesami, M.P | | 29. The Hon. Raphael Milkau Otaalo, M.P |
| 22. The Hon. Dr. Susan Musyoka, M.P | | |

IN ATTENDANCE:

National Assembly Secretariat

- | | | |
|---------------|----------|-----------------------------|
| Marale Sande | - | Senior Research Officer |
| Nebert Ikai- | - | Third Clerk Assistant |
| Hassan Arale- | | Third Clerk Assistant Clerk |

MIN. NO DCH 175/2014 PRELIMINARIES

The Chair called the meeting to order at 10.30 am and commenced with prayers by Hon. Dr. Racheal Nyamai, MP.

MIN. NO DCH 176/2014 CONFIRMATION OF MINUTES

Confirmation of Minutes was deferred to the next sitting.

MIN. NO DCH 177/2014 CONSIDERATION OF NHIF REPORT: KAREN CENTER OF EXCELENCE

The Committee considered the draft NHIF Centre of Excellence Report and made the following comments:-

- i. That the Ministry of Health should take over the project including its assets and liabilities;
- ii. That the Ministry of Health should source for funding for the project to see it that will see it implemented to completion;
- iii. The secretariat was tasked to put together all the necessary appendices to support the Report.

The Committee further recommended as follows: That;

- a) Recommendation no. 1 be removed
- b) Recommendation no. 2 be removed
- a) Recommendation no. 3 be removed
- b) Recommendation no. 4 be removed

MIN. NO DCH 178/2014 ANY OTHER BUSINESS

The Committee resolved to invite the Karen Project Manager to appear before the Committee, on Tuesday, 27th May, 2013 at 2.30pm.

The Report on NHIF's preparedness to roll out the Universal Health Care was scheduled for consideration on Wednesday, 28th May, 2014 at 2.30pm.

MIN. NO DCH 179 ADJOURNMENT

There being no other business, the meeting was adjourned at 1:00 pm meeting until 2.30pm, same day, same venue.

SIGNED.....

HON (DR.) RACHEL NYAMAI, M.P
(Chairperson)

DATE.....10/06/2014.....

MINUTES OF THE 23RD SITTING OF THE HEALTH COMMITTEE HELD IN COMMITTEE ROOM ON 2ND FLOOR, CONTINENTAL HOUSE, PARLIAMENT BUILDINGS, ON TUESDAY, 9TH APRIL, 2014 AT 10.30AM

PRESENT

- | | |
|--|--|
| 1. The Hon. Dr. Rachel Nyamai, M.P. | - Chairperson |
| 2. The Hon. Dr. James Nyikal, M.P. | |
| 3. The Hon. Christopher Nakuleu, M.P. | 12. The Hon. Hassan Aden Osman, M.P. |
| 4. The Hon. Dr. David Eseli, M.P. | 13. The Hon. John Nyaga Muchiri, M.P. |
| 5. The Hon. Alfred Agoi, M.P. | 14. The Hon. Joseph Magwanga, M.P. |
| 6. The Hon. David Karithi, M.P. | 15. The Hon. Leonard Sang, M.P. |
| 7. The Hon. Dr. Dahir Mohamed, M.P. | 16. The Hon. Michael Onyura, MP |
| 8. The Hon. Dr. James Murgor, M.P. | 17. The Hon. Eng. Stephen Mule, M.P. |
| 9. The Hon. Dr. James O. Gesami, M.P. | 18. The Hon. Zipporah Jesang, M.P. |
| 10. The Hon. Dr. Stephen Wachira, M.P. | 19. The Hon. Raphael Milkau Otaalo, M.P. |
| 11. The Hon. Dr. Susan Musyoka, M.P. | |

ABSENT WITH APOLOGY

- | | |
|---|-----------------------------------|
| 20. The Hon. Dr. Robert Pukose, MP-
Vice Chairperson | |
| 21. The Hon. Dr. Enoch Kibunguchy, M.P. | 26. The Hon. Kamande Mwangi, M.P. |
| 22. The Hon. Dr. Naomi Shaban, M.P. | 27. The Hon. Mwahima Masoud, M.P. |
| 23. The Hon. Dr. Patrick Musimba, M.P. | 28. The Hon. Mwinga Gunga, M.P. |
| 24. The Hon. Fred Outa, M.P. | 29. The Hon. Paul Koinange, MP |
| 25. The Hon. James Gakuya, M.P. | |

IN ATTENDANCE (National Assembly Secretariat)

Susan Maritim - First Clerk Assistant

MIN. NO. DCH/108/2014 PRELIMINARIES

The meeting was called to order at 10.30am followed by a word of prayer from Hon. Dr. Susan Musyoka, MP.

MIN.NO.DCH/109/2014 CONFIRMATION OF MINUTES

Minutes of the 19th Sitting were confirmed as a true record of the proceedings having been proposed by Hon. Christopher Nakuleu, MP and Seconded by Hon. Raphael Otaalo, MP.

Minutes of the 20th Sitting were confirmed as a true record of the proceedings having been proposed by Hon. Muchiri Nyagah, MP and Hon. Dr. James Nyikal, MP.

MIN.NO.DCH/110/2014 MATTERS ARISING FROM THE MINUTES

i) **NHIF Proposed Karen Centre of Excellence:**

The Committee observed that there is need to visit the said parcel of land in Karen. Further, revisited its previous stand on summoning the former Prime Minister to a meeting and resolved that there wasn't sufficient reason to summon him. The Committee will consider the draft Report in Mombasa and give further direction on the need to invite the former Minister for Medical Services, Sen. Prof. Anyang Nyong'o to shed more light on the matter.

The Secretariat reported that NHIF was yet to forward the Authentication Report as instructed in the previous meeting. Secretariat to liaise with CEO's office to get the Report at the earliest opportunity.

ii) **Gazettement of Health Management Committees**

The Committee considered the Gazette Notice dated 21st March, 2014, specifically on the Gazettement of Hospitals Management Committees by the CS, Health. The Committee noted that the Notice covered only Provincial, District and Sub-District Hospitals and that the list did not reflect the list forwarded by MPs for gazettement. It was resolved that the PS, forwards the list as submitted by various MPs for further scrutiny by the Committee.

iii) **Inspection Visits to various County Health Facilities**

The Committee resolved to conduct inspection visits to various Counties to assess progress of implementation of health services in the current devolved system in preparation for the debate on the Committee's Report on Devolution.

- The visits to take place on Thursday, 24th April and 25th April, 2014. Departure date is 23rd April, 2014.
- Members to be divided into 4 Groups/Regions to include Bomet, Embu. (Secretariat to work out modalities and necessary logistic arrangements)
- Sample Level 1 – 5 Hospitals
- **Objectives:**
 - i. information on stocking of drugs (stock levels, range of stock);
 - ii. staff establishment vis-à-vis requirements;
 - iii. staff remuneration
 - iv. utilization of cost-sharing funds and access to the said funds
 - v. Availability of requisite Equipment
 - vi. Brief on Free Maternity Programme

1. **VAT (Amendment) Bill, 2014:** the Committee was informed that its amendments were approved by the Budget Committee and will be discussed when the House resumes its Sessions after the short recess.
2. **Travel to WHO World Health Assembly Meeting in Geneva, Switzerland (15 – 25 May, 2014)**

The Committee resolved to participate in the WHA Meeting and nominated the following Members to participate in the event:-

1. (Chair or Vice Chair)
2. Hon. Dr. James Nyikal, MP
3. Hon. Dr. Dahir Duale, MP
4. Hon. Raphael Otaalo, MP
5. Hon. Joseph Magwanga, MP
6. Hon. Stephen Muchiri, MP
7. Hon. Michael Onyura, MP

The Members were nominated based on travel history. Members who have never traveled at all (even with other Committees) were given first priority.

MIN. NO. DCH/112/2014: ADJOURNMENT

There being no other business, the meeting was adjourned at 1.30pm until same day at 2.30pm, in the same venue.

SIGNED _____

HON. DR. RACHEAL NYAMAI, MP

(CHAIRPERSON)

DATE

22/04/2014

MINUTES OF THE 17TH SITTING OF THE HEALTH COMMITTEE HELD IN
COMMITTEE ROOM IN ROOM NO. 7, MAIN PARLIAMENT BUILDINGS, ON
TUESDAY, 11TH MARCH, 2014 AT 10.30AM

PRESENT

1. **The Hon. Eng. Stephen Mule, M.P. (Chaired meeting)**
2. **The Hon. Dr. Robert Pukose, MP** - Vice Chairperson
3. The Hon. David Karithi, M.P.
4. The Hon. Christopher Nakuleu, M.P.
5. The Hon. Dr. Dahir Mohamed, M.P.
6. The Hon. Dr. David Eseli, M.P.
7. The Hon. Dr. James Murgor, M.P.
8. The Hon. Dr. James Nyikal, M.P.
9. The Hon. Dr. James O. Gesami, M.P.
10. The Hon. Dr. Stephen Wachira, M.P.
11. The Hon. Dr. Susan Musyoka, M.P.
12. The Hon. Fred Outa, M.P.
13. The Hon. Hassan Aden Osman, M.P.
14. The Hon. James Gakuya, M.P.
15. The Hon. John Nyaga Muchiri, M.P.
16. The Hon. Michael Onyura, MP
17. The Hon. Mwinga Gunga, M.P.
18. The Hon. Raphael Milkau Otaalo, M.P.
19. The Hon. Zipporah Jesang, M.P.

ABSENT WITH APOLOGY

20. **The Hon. Dr. Rachel Nyamai, M.P.**
- Chairperson
21. The Hon. Alfred Agoi, M.P.
22. The Hon. Dr. Enoch Kibunguchy, M.P.
23. The Hon. Dr. Naomi Shaban, M.P.
24. The Hon. Dr. Patrick Musimba, M.P.
25. The Hon. Joseph O. Magwanga, M.P.
26. The Hon. Kamande Mwangi, M.P
27. The Hon. Leonard Sang, M.P.
28. The Hon. Mwahima Masoud, M.P.
29. The Hon. Paul Koinange, MP

IN ATTENDANCE

National Assembly Secretariat

- Susan Maritim - First Clerk Assistant
Faith Nthenge - Protocol Officer

Nigerian Delegation on Health & ATM Committee

1. Hon. Joseph Haruna Kigbu, Chairperson, House Committee on HIV/AIDS, TB & Malaria & Leader of Delegation
2. Hon. Babatunde Jimoh Adewale – Member, House Committee on HIV/AIDS/TB
3. Mr. Angulu Danladi, Clerk, Senate Committee on Health
4. Mrs. Maimuna Hajiya Yakubu Muhammad, Director, National Agency for Control of AIDS (NACA)
5. Mr. Adenkunle Oyeyemi Adeniyi, Head, Legal Services (NACA)
6. Mr. Andrew Aiyewumi Adeoluwa, Officer in Charge of Human Rights (NACA)
7. Mr. Victor Olaore Omolere Omosehin, Secretary, Network of People Living with HIV/AIDS
8. Mr. Kennedy Mosoti – Legal Counsel, NACC

MIN.NO. DCH/78/2014: PRELIMINARIES

The meeting was called to order at 10.30am and commenced with a word of prayer by Hon. Stephen Wachira, MP.

MIN.NO. DCH/79/2014: NHIF PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

The Committee discussed at length the matter of payment of pending bills owed to consultants on the proposed Karen centre of excellence. The Committee revisited its resolution of 6th March, 2014 that a letter is written to NHIF instructing the Fund not to make any payments to consultants pending further direction and consultations from the Committee. The Committee was gravely concerned that the Clerk did not dispatch the letter as per the Committee's direction. The secretariat responded that the Clerk advised that the Committee fast-tracks its report to the House on the matter as opposed to issuing a letter which may attract litigation.

The Committee further directed that failure to dispatch the letter to NHIF will result in the Clerk appearing before the Committee on Wednesday, 12 March, 2014 to give reasons for his decision.

The Committee was also concerned that the meeting with NHIF was rescheduled to 18th March, 2014 at the Chair's request. The issue to be discussed further in the Chair's presence.

Way Forward:

1. The secretariat to circulate the draft NHIF Report for discussion by the Committee in the next meeting.
2. Further to the information provided by NHIF on the project, the Committee directed that the Fund provides the following supporting documents: -
 - i. Letter from the Cabinet Secretary, Ministry of Health, instructing the Board to initiate rapid response to validate pending bills for the consultants and negotiate settlement;
 - ii. Board Minutes of 25th January, 2014 and 28th February, 2014;
 - iii. Analysis of the fee notes owed to consultants.

MIN.NO. DCH/80/2014: MEETING WITH NIGERIAN DELEGATION

The Committee met the Nigerian delegation on Health & ATM Committees including NACA officials.

The Committee briefed the delegation on the Committee's mandate and a brief history and situation analysis of the HIV/AIDS situation in Kenya and the Kenya HIV/AIDS Prevention and Control Act, 2006.

The delegation informed the Committee that they are in Kenya on a learning visit in order to enrich the HIV/AIDS Anti-Discrimination Bill which is in 3rd Reading in the Nigerian Senate.

Highlighted issues

1. Need to protect against discrimination of people living with HIV/AIDS
2. Rights of employers & employees
3. Emerging issues in HIV/AIDS e.g changing demographics, same sex unions, stigma and discrimination
4. Challenges in implementation of existing laws (CSOs come in handy in pushing the government to implement)
5. Need for sustainable financing of healthcare especially HIV/AIDS programmes in the wake of dwindling donor support.
6. Nigeria is considering taxation of telecommunication and airline companies to raise funds for the fight against HIV/AIDS
7. General challenge of access to affordable healthcare in developing countries.

MIN.NO. DCH/81/2014 ANY OTHER BUSINESS

No other business arose.

MIN.NO. DCH/82/2014: ADJOURNMENT

There being no other business, the meeting was adjourned at 12.30pm.

SIGNED



HON. DR. RACHEAL NYAMAI, MP
(CHAIRPERSON)

DATE

17/03/2013

MINUTES OF THE 33RD SITTING OF THE HEALTH COMMITTEE HELD AT NEPTUNE BEACH RESORT, MOMBASA ON THURSDAY, 29TH AUGUST, 2013 AT 10.30 AM.

PRESENT

The Hon. Dr. Rachel Nyamai, M.P. – Chairperson

The Hon. Dr. Robert Pukose, MP - Vice Chairperson

The Hon. Dr. David Eseli, M.P.

The Hon. Hassan Aden Osman, M.P.

The Hon. James Gakuya, M.P.

The Hon. Joseph O. Magwanga, M.P.

The Hon. John Nyaga Muchiri, M.P.

The Hon. David Karithi, M.P.

The Hon. Fred Outa, M.P.

The Hon. Dr. James Murgor, M.P.

The Hon. Leonard Sang, M.P.

The Hon. Paul Koinange, MP

The Hon. Alfred Agoi, M.P.

The Hon. Dr. Susan Musyoka, M.P.

The Hon. Zipporah Jesang, M.P.

The Hon. Michael Onyura, M.P.

The Hon. Kamande Mwangi, M.P.

The Hon. Raphael Milkau Otaalo, M.P.

The Hon. Christopher Nakuleu, M.P.

The Hon. Mwinga Gunga, M.P.

The Hon. Dr. Stephen Wachira, M.P.

ABSENT WITH APOLOGY

The Hon. Dr. James Nyikal, M.P.

The Hon. Dr. Enoch W. Kibunguchy, M.P.

The Hon. Mwahima Masoud, M.P.

The Hon. Dr. Naomi Shaban, M.P.

The Hon. Dr. Dahir Duale Mohamed, M.P.

The Hon. Dr. James O. Gesami, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY SECRETARIAT

Joash Kosiba - Fiscal Analyst

Sande Marale - Senior Researcher

MIN.NO. DCH/153/2013: PRELIMINARIES

The meeting was called to order at thirty minutes past ten o'clock.

MIN.NO. DCH/154/2013: COMMITTEE RESOLUTION AND PRESS RELEASE

The Committee met to revisit the deliberations made during its Retreat with National Hospital Insurance Fund (NHIF) and the Ministry of Health held at Neptune Resort Hotel in Mombasa on the 26th – 30th August 2013.

The Committee resolved to do a press release which was read by the Committee Chair.

PRESS RELEASE

The Departmental Committee on Health for the last three days has been holding a joint retreat with the NHIF and Ministry of Health to deliberate on the capacity of the Fund to roll out the Universal Healthcare, the issues concerning the proposed Karen Medical centre and previously rolled out Civil Servants and Disciplined Forces Medical Scheme.

On the Universal Health Care provision, the Committee noted that NHIF remains the key vehicle for the provision of Universal Health Care in Kenya. The Fund however requires immediate interventions and transformation in the areas governance structure, Policy reforms and an enabling legal framework among others.

The Committee also noted that the Fund lacks key strategic competencies and that there were areas of skills mismatch in the critical departments. The Committee therefore recommends and shall oversee that the Board and Management fast tracks the sourcing of an external, independent Human Resource consultant to undertake a skills audit, workload analysis and further provide an independent opinion in the rationalization of staff within the Fund. Additionally, the Committee will liaise with the Ministry of Health to fast track the enactment of requisite legal framework on Universal Health Care including amending the NHIF Act in line with the Constitution.

The Committee deliberated on the proposed Karen Medical Centre and was in agreement that establishment was outside of the mandate of the Fund as provided for in section 5 of the NHIF Act and despite huge investment the project remains at design stage. The Committee therefore recommends that The Board ceases from investing in the project and that the Ministry takes up all matters related to such projects. The Committee further recommended that EACC takes up the matter, investigate and those found responsible be prosecuted.

On the Civil Servants and Disciplined Forces Medical Scheme the committee observed that the Scheme was rolled out from 1st January 2012 but faced numerous challenges among them inadequate services by the service providers, the mode of payment which in this case was capitation. The Committee also noted that accreditation and registration of medical facilities was not in compliance with Section 30 of the NHIF Act, the Public Procurement and Disposal Act 2005 and the ISO Procedures manuals. With the foregoing the Committee recommends that The Board and Management of the Fund implement the Recommendations of the Auditor General Special Audit report on the Civil Servants and Defense Services Medical Scheme and the Efficiency Monitoring Unit Report on the alleged irregularities in the payments to private health providers by NHIF

In the next few weeks the Committee will spearhead a tripartite consultative meeting between NHIF, investigating institutions (EACC) to determine the status of the

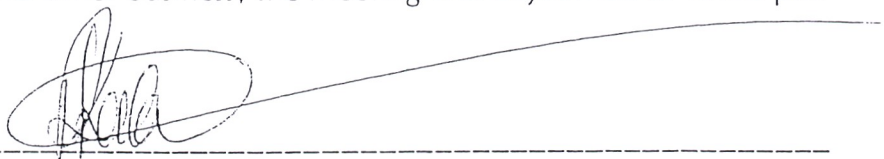
investigation on the irregularities during the roll-out of the Civil Service and Defense Services Medical Scheme so as to guarantee an informed way forward.

Further for effective monitoring of the anticipated roll out of the Universal Health Care and in line with creating capacity of the fund in preparedness of the roll out, the Committee recommends that the Board and Management of the Fund delinks M& E from the Benefits and Quality Assurance unit and establishes a fully fledged M and E unit with capacity to develop M&E systems for the health insurance products

MIN.NO. DCH/154/2013: ADJOURNMENT

There being no other business, the meeting was adjourned at 12.00 pm.

SIGNED _____



HON. DR. RACHEAL NYAMAI, MP

(CHAIRPERSON)

DATE _____

22/08/2014



MINUTES OF THE 28TH SITTING OF THE HEALTH COMMITTEE HELD AT NEPTUNE BEACH RESORT, MOMBASA ON TUESDAY, 27TH AUGUST, 2013, AT, AT 9.00 AM.

PRESENT

The Hon. Dr. Rachel Nyamai, M.P. – Chairperson

The Hon. Dr. Robert Pukose, MP - Vice Chairperson

The Hon. Dr. David Eseli, M.P.

The Hon. Hassan Aden Osman, M.P.

The Hon. James Gakuya, M.P.

The Hon. Joseph O. Magwanga, M.P.

The Hon. John Nyaga Muchiri, M.P.

The Hon. David Karithi, M.P.

The Hon. Dr. James Nyikal, M.P.

The Hon. Fred Outa, M.P.

The Hon. Dr. James Murgor, M.P.

The Hon. Leonard Sang, M.P.

The Hon. Paul Koinange, MP

The Hon. Alfred Agoi, M.P.

The Hon. Dr. Susan Musyoka, M.P.

The Hon. Zipporah Jesang, M.P.

The Hon. Michael Onyura, M.P.

The Hon. Kamande Mwangi, M.P.

The Hon. Raphael Milkau Otaalo, M.P.

The Hon. Christopher Nakuleu, M.P.

The Hon. Mwinga Gunga, M.P.

The Hon. Dr. Stephen Wachira, M.P.

ABSENT WITH APOLOGY

The Hon. Dr. Enoch W. Kibunguchy, M.P.

The Hon. Dr. Patrick Musimba, M.P.

The Hon. Eng. Stephen Mutinda Mule, M.P.

The Hon. Mwahima Masoud, M.P.

The Hon. Dr. Naomi Shaban, M.P.

The Hon. Dr. Dahir Duale Mohamed, M.P.

The Hon. Dr. James O. Gesami, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY SECRETARIAT

Joash Kosiba - Fiscal Analyst

Sande Marale - Senior Researcher

Eutyclus Mwiti - Junior Legislative Fellow

MINISTRY OF HEALTH

Dr. James Macharia - Cabinet Secretary

Prof. Fred Segor - Principal Secretary

NHIF

Dr Joseph Aluoch - Chairman

Rt. Rev. Michael J. Sande - Board Member – Representing CHAK

Mr. Elijah Adul Onyango - Board Member – Representing KNUF

Mrs. Gilda Odera - Board Member – Representing FKE

Mr. S. Ole. Kirgotty - Chief Executive Officer/Secretary to the board

Ms. Lucy Rono	-	Corporate Secretary
Mrs. Millicent W. Mwangi	-	General Manager HR & Administration
Dr. George Midiwo	-	General Manager Benefits & Quality Assurance
Mr. Karingo Wa Njoka	-	General Manager ICT
Mr. David Mulli	-	General Manager Internal Audit & Compliance
Mr. Lawrence Ondari	-	General Manager Finance & Control
Mr. Jackson Gitimu	-	General Manager Operations & Marketing
Mrs. Jacinta Mwangi	-	Manager Finance Accounting
Ms. Nellie Keriri Kinyanjui	-	Assistant Manager Strategy & Corporate Planning
Mr. Chrisostim Wafula	-	Senior Officer Cost Management & Accounting
Ms. Ramla Tomno	-	Personal Secretary
Ms. Anastacia Nzovo	-	Personal Secretary

MIN.NO. DCH/ 134 /2013: PRELIMINARIES

The meeting was called to order at ten minutes past nine o'clock. The meeting started with a word of prayer by Hon. Dr. Susan Musyoka, M.P. This was followed by a round of introductions.

MIN.NO./DCH/ 135/2013: OPENING REMARKS

The CEO, NHIF welcomed everyone to the retreat and invited the NHIF Chairman to give the welcoming remarks on behalf of NHIF.

Giving his opening remarks, the Cabinet Secretary, Ministry of Health, emphasized the objective of the retreat. He highlighted the following issues that needed to be addressed during the retreat: -

- i. Way forward for proposed Karen Medical Centre of Excellence
- ii. NHIF capacity to provide universal health care should be thoroughly assessed. This should also include its governance capacity as well as its accountability, which will require looking at the management and the HR structure as well as the Act governing NHIF.
- iii. The Cabinet Secretary further informed the Committee that the government was in the process of establishing centres of excellence (Huduma centres) with all ministries that provide services to the citizens put together, and NHIF was designated to represent the Ministry of Health in these centres. So there is need to ensure that NHIF is highly efficient by the time they roll out the centres.

Giving her opening remarks, the Chairperson of the Health committee pointed out the need to address the various challenges affecting the Health sector.

MIN.NO. DCH/136/2013: OVERVIEW OF NHIF/ IFC DELOITTE REPORT

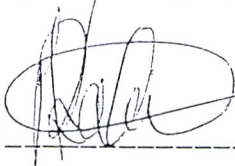
The CEO took the Committee through an overview of NHIF, after which Members of the Committee asked questions and sought the following clarifications:-

- i. Staff distribution vs available resources: it was established that the headquarters gets more budgetary allocation because it supports the branches in various functions such as advertising and general administration. The Committee was further informed that the Board is working towards making operations standardised across all its branches.
- ii. Provision of health insurance: The Committee was informed that NHIF will soon roll out health insurance to employees of the TSC.
- iii. There is need for more Kenyans in the informal sector to register and contribute to NHIF.
- iv. On the issue of private hospitals getting more payment than the public ones, the Committee heard that this was caused by the fact that high-end private hospitals charge more per person than the public hospitals and therefore claim more.
- v. The Board was instructed to give periodic updates on implementation of reforms at NHIF.
- vi. The Board was further advised to seek the services of health insurance experts to ensure efficiency in the Fund.

MIN.NO. DCH/137/2013: ADJOURNMENT

There being no other business, the meeting was adjourned at 13.15 pm. The next meeting was scheduled for 2.15 pm same day, 27th August, 2013 at the same venue.

SIGNED _____



HON. DR. RACHEAL NYAMAI, MP
(CHAIRPERSON)

DATE _____

22/05/2014

MINUTES OF THE 32ND SITTING OF THE HEALTH COMMITTEE HELD ON THURSDAY, 29TH AUGUST, 2013 AT NEPTUNE BEACH RESORT, MOMBASA AT 8.00 AM.

PRESENT

The Hon. Dr. Rachel Nyamai, M.P. – Chairperson

The Hon. Dr. Robert Pukose, MP - Vice Chairperson

The Hon. Hassan Aden Osman, M.P.
The Hon. James Gakuya, M.P.
The Hon. Joseph O. Magwanga, M.P.
The Hon. David Karithi, M.P.
The Hon. Fred Outa, M.P.
The Hon. Dr. James Murgor, M.P.
The Hon. Leonard Sang, M.P.
The Hon. Paul Koinange, MP
The Hon. Dr. Susan Musyoka, M.P.

The Hon. Zipporah Jesang, M.P.
The Hon. Michael Onyura, M.P.
The Hon. Kamande Mwangi, M.P.
The Hon. Raphael Milkau Otaalo, M.P.
The Hon. Christopher Nakuleu, M.P.
The Hon. Mwinga Gunga, M.P.
The Hon. Dr. Stephen Wachira, M.P.
The Hon. Dr. Dahir Duale Mohamed, M.P.
The Hon. Dr. James O. Gesami, M.P.

ABSENT WITH APOLOGY

The Hon. Dr. Enoch W. Kibunguchy, M.P.
The Hon. Mwahima Masoud, M.P.
The Hon. Dr. Naomi Shaban, M.P.
The Hon. John Nyaga Muchiri, M.P.

The Hon. Dr. James Nyikal, M.P.
The Hon. Dr. David Eseli, M.P.
The Hon. Alfred Agoi, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY SECRETARIAT

Joash Kosiba - Fiscal Analyst
Sande Marale - Senior Researcher
Eutyclus Mwiti - Junior Legislative Fellow

NHIF

Dr. Joseph Aluoch - Chairman
Rt. Rev. Michael J.Sande - Board Member – Representing CHAK
Mr. Elijah Adul Onyango - Board Member – Representing KNUF
Mrs. Gilda Odera - Board Member – Representing FKE
Mr. S. Ole Kirgotty - Chief Executive Officer/Secretary to the board
Ms. Lucy Rono - Corporate Secretary
Mrs. Millicent W. Mwangi - General Manager HR & Administration
Dr. George Midiwo - General Manager Benefits & Quality Assurance
Mr. Karingo Wa Njoka - General Manager ICT
Mr. David Mulli - General Manager Internal Audit & Compliance
Mr. Lawrence Ondari - General Manager Finance & Control
Mr. Jackson Gitimu - General Manager Operations & Marketing
Mrs. Jacinta Mwangi - Manager Finance Accounting
Ms. Nellie Keriri Kinyanjui - Assistant Manager Strategy & Corporate Planning

Mr. Chrisostim Wafula - Senior Officer Cost Management & Accounting
Ms. Ramla Tomno - Personal Secretary
Ms. Anastacia Nzovo - Personal Secretary

MIN.NO. DCH/150/2013: PRELIMINARIES

The meeting was called to order at ten minutes past eight o'clock. Prayers were said by Rt. Rev. Michael J. Sande.

MIN.NO. DCH/151/2013: ACTION PLAN/ WAY FORWARD

The Board was given 7days to submit the following information:-

- i. Detailed report on staff qualifications
- ii. Minutes of Board meeting approving the Karen project;
- iii. Directors of the company whose land is in dispute
- iv. Directors of the consulting Firms
- v. List of the 77 accredited health facilities
- vi. Evidence of the Board asking re-inspection of facilities and recommendation of new facilities
- vii. Evidence of the extent of the implementation of the EMU report

It was resolved that NHIF remains the key vehicle for the provision of a Universal Health Insurance in Kenya, as such the following measures need to be undertaken to realize this goal:-

- i. The Committee to **fast track amendments to the NHIF Act, 1998** in line with the Constitution and taking into consideration the various recommendations in the several reports on the Fund.
- ii. The Committee to liaise with the Ministry of Health to **fast track the enactment of requisite legal framework on Universal Health Care.**
- iii. **The Board and Management of the Fund to consider developing an integrated Health Information Systems to support the implementation of the Universal Health Care.**
- iv. **NHIF establish a Committee to oversee the implementation of the NHIF/ IFC Deloitte Report** with continuous updates on the status of its implementation to the Committee.
- v. **The Board and Management to fast track the sourcing of an external, independent Human Resource consultant** to undertake a skills audit, workload analysis and further provide an independent opinion in the rationalization of staff within the Fund.
- vi. **On the proposed Karen Medical Centre project, the Board ceases investing in the project particularly because it contravenes the Fund's core function which is purchase of healthcare.** The Ministry of Health to focus on strengthening

the already existing health infrastructure including Level Four and Five healthcare facilities across the country as a way of comprehensively creating capacity of health facilities in the roll out of the Universal Health Care.

The Public Investments Committee (PIC), which has the mandate to audit public corporations to take up the matter for further investigations.

vii. On the Civil Servants and Disciplined Forces Medical Scheme, the Committee to spearhead tripartite consultative meeting between NHIF, investigating institutions (EACC) to determine the status of the investigation on the irregularities during the roll-out of the Civil Servants and Disciplined Forces Medical Scheme so as to guarantee an informed way forward. The Board and Management of the Fund to consider terminating the inpatient contracts between the Fund and Equator Hospitals and Nairobi West hospitals given that their affiliated health facilities, Clinix and Meridian respectively are under investigations. The Board and Management of the Fund implement the recommendations of the KENAO Special Audit report on the CSDSMS and the EMU Report on the alleged irregularities in the payments to private health providers by NHIF-for the CSDSMS.

viii. For effective monitoring of the anticipated roll out of the Universal Health Care and in line with creating capacity of the Fund in preparedness of the roll out, the Committee recommends that the Board and Management of the Fund delinks M& E from the Benefits and Quality Assurance unit and establishes a fully fledged Monitoring and Evaluation unit with capacity to develop M&E systems for the health insurance products.

MIN.NO. DCH/152/2013:

ADJOURNMENT

There being no other business, the meeting was adjourned at 10.00 am.

SIGNED _____

HON. DR. RACHEAL NYAMAI, MP
(CHAIRPERSON)

DATE _____

22/05/14

MINUTES OF THE 29TH SITTING OF HEALTH COMMITTEE HELD AT NEPTUNE BEACH RESORT, MOMBASA ON TUESDAY, 27TH AUGUST, 2013 AT 2.00 PM.

PRESENT

The Hon. Dr. Rachel Nyamai, M.P. – Chairperson

The Hon. Dr. Robert Pukose, MP - Vice Chairperson

The Hon. Dr. David Eseli, M.P.

The Hon. Hassan Aden Osman, M.P.

The Hon. James Gakuya, M.P.

The Hon. Joseph O. Magwanga, M.P.

The Hon. John Nyaga Muchiri, M.P.

The Hon. David Karithi, M.P.

The Hon. Dr. James Nyikal, M.P.

The Hon. Fred Outa, M.P.

The Hon. Dr. James Murgor, M.P.

The Hon. Leonard Sang, M.P.

The Hon. Paul Koinange, MP

The Hon. Alfred Agoi, M.P.

The Hon. Dr. Susan Musyoka, M.P.

The Hon. Zipporah Jesang, M.P.

The Hon. Michael Onyura, M.P.

The Hon. Kamande Mwangi, M.P.

The Hon. Raphael Milkau Otaalo, M.P.

The Hon. Christopher Nakuleu, M.P.

The Hon. Mwinga Gunga, M.P.

The Hon. Dr. Stephen Wachira, M.P.

ABSENT WITH APOLOGY

The Hon. Dr. Enoch W. Kibunguchy, M.P.

The Hon. Dr. Patrick Musimba, M.P.

The Hon. Eng. Stephen Mutinda Mule, M.P.

The Hon. Mwahima Masoud, M.P.

The Hon. Dr. Naomi Shaban, M.P.

The Hon. Dr. Dahir Duale Mohamed, M.P.

The Hon. Dr. James O. Gesami, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY SECRETARIAT

Joash Kosiba - Fiscal Analyst

Sande Marale - Senior Researcher

Eutyclus Mwititi - Junior Legislative Fellow

MINISTRY OF HEALTH

Dr. James Macharia - Cabinet Secretary

Prof. Fred Segor - Principal Secretary

NHIF

Dr Joseph Aluoch - Chairman

Rt. Rev. Michael J.Sande - Board Member – Representing CHAK

Mr. Elijah Adul Onyango - Board Member – Representing KNUF

Mrs. Gilda Odera - Board Member – Representing FKE

Mr. S. Ole Kirgotty - Chief Executive Officer/Secretary to the board

Ms. Lucy Rono	-	Corporate Secretary
Mrs. Millicent W. Mwangi	-	General Manager HR & Administration
Dr. George Midiwo	-	General Manager Benefits & Quality Assurance
Mr. Karingo Wa Njoka	-	General Manager ICT
Mr. David Mulli	-	General Manager Internal Audit & Compliance
Mr. Lawrence Ondari	-	General Manager Finance & Control
Mr. Jackson Gitimu	-	General Manager Operations & Marketing
Mrs. Jacinta Mwangi	-	Manager Finance Accounting
Ms. Nellie Keriri Kinyanjui	-	Assistant Manager Strategy & Corporate Planning
Mr. Chrisostim Wafula	-	Senior Officer Cost Management & Accounting
Ms. Ramla Tomno	-	Personal Secretary
Ms. Anastacia Nzovo	-	Personal Secretary

MIN.NO. DCH/138/2013: PRELIMINARIES

The meeting was called to order at twenty minutes past two o'clock.

MIN.NO. DCH/138/2013: PRESENTATION ON THE PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

The CEO, NHIF made a presentation on the Proposed Karen Medical Centre of Excellence.

The Committee raised concerns on NHIF's mandate to carry out such a project, since NHIF is a buyer and not a provider of health services. The Committee was informed that the initial proposal for the establishment of staff recreational facility had been approved by the NHIF Board but was later redesigned as Medical Centre of Excellence and a flagship project under the Ministry of Medical Services. It is this proposed establishment of Karen Medical Centre that was outside of the mandate of the Fund as provided for in Section 5 of the NHIF Act.

The Committee also sought to know if the project was approved in the first place. In this regard, the Committee directed the Board to provide Board Minutes of the meeting that approved the project. The project was still at design stage despite the huge investment. The projected cost is Kshs 7.2Billion comprising of (total payment and pending bills)

WAY FOWARD


On this issue, the Committee resolved as follows:

1. The Board should cease investing in the project particularly because it contravenes the Fund's core function which is purchase of healthcare.

2. The Ministry of Health to focus on strengthening the already existing health infrastructure including Level 4 and 5 healthcare facilities across the country as a way of comprehensively creating capacity of health facilities in the roll out of Universal Health Care.
3. The CS supported the Committee's position that since there were no prior approvals by the NHIF Board and Treasury for the project, the pending bills totaling to Kshs 5.659Billion as demanded by the various consultants are not justified.
4. The Public Investments Committee (PIC) which is charged with auditing state corporations should take up the matter of Karen project for further investigations.

MIN.NO. DCH/139/2013: ADJOURNMENT

There being no other business, the meeting was adjourned at 5.30 pm. The next meeting was scheduled for 09.00 am the following day, 28th August, 2013 at the same venue.

SIGNED  _____

HON. DR. RACHEAL NYAMAI, MP
(CHAIRPERSON)

DATE 22/05/14 _____

MINUTES OF THE 18TH MEETING OF THE HEALTH COMMITTEE HELD ON TUESDAY, 23RD JULY, 2013 IN COMMITTEE ROOM ON 2ND FLOOR, CONTINENTAL HOUSE, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

- | | | |
|--|---|------------------|
| 1. The Hon. Dr. Rachel Nyamai, M.P. | - | Chairperson |
| 2. The Hon. Dr. Robert Pukose, MP | - | Vice Chairperson |
| 3. The Hon. Dr. Stephen Wachira, M.P. | | |
| 4. The Hon. James Gakuya, M.P. | | |
| 5. The Hon. Joseph O. Magwanga, M.P. | | |
| 6. The Hon. Paul Koinange, MP | | |
| 7. The Hon. Raphael M. Otaalo, M.P. | | |
| 8. The Hon. Dr. James Murgor, M.P. | | |
| 9. The Hon. Dr. James Nyikal, M.P. | | |
| 10. The Hon. Dr. Naomi Shaban, M.P. | | |
| 11. The Hon. John Nyaga Muchiri, M.P. | | |
| 12. The Hon. Christopher Nakuleu, M.P. | | |
| 13. The Hon. Dr. David Eseli, M.P. | | |
| 14. The Hon. Zipporah Jesang, M.P. | | |
| 15. The Hon. Mwinga Gunga, M.P. | | |
| 16. The Hon. Hassan Aden Osman, M.P. | | |
| 17. The Hon. Fred Outa, M.P. | | |
| 18. The Hon. Dr. Susan Musyoka, M.P. | | |
| 19. The Hon. Mwahima Masoud, M.P. | | |
| 20. The Hon. Leonard Sang, M.P. | | |
| 21. The Hon. Alfred Agoi, M.P. | | |
| 22. The Hon. Dr. Dahir Mohamed, M.P. | | |
| 23. The Hon. Dr. Patrick Musimba, M.P. | | |
| 24. The Hon. Kamande Mwangi, M.P. | | |

ABSENT WITH APOLOGY

- | | | |
|---|--|--------------------------------------|
| 25. The Hon. Dr. Enoch Kibunguchy, M.P. | | 27. The Hon. Eng. Stephen Mule, M.P. |
| 26. The Hon. Michael Onyura, M.P. | | 28. The Hon. Dr. James Gesami, M.P. |
| | | 29. The Hon. David Karithi, M.P. |

IN ATTENDANCE

NATIONAL ASSEMBLY SECRETARIAT

- | | | |
|-----------------|---|-----------------------|
| Susan Maritim | - | First Clerk Assistant |
| Eutyachus Mwiti | - | Parliamentary Intern |

MINISTRY OF HEALTH

- | | | |
|------------------|---|-----------------------------|
| James Macharia | - | Cabinet Secretary |
| Prof. Fred Segor | - | Principal Secretary |
| S.Ole Kirgotty | - | CEO, NHIF |
| Ruth Makallah | - | Manager Legal Affairs, NHIF |
| Lawrence Owdar | - | GM finance, NHIF |

NURSES UNION

- | | | |
|-------------------|---|---|
| Jophinus Musundi | - | National Chairman, KNUN |
| Winnie Shena | - | 1 st National Vice Chair, KNUN |
| Joseph K Wadereva | - | National Organizing Secretary, KNUN |
| Bernard Okeah | - | Administrator, KNUN |
| Lydia Ngari | - | Deputy Chief Trustee |
| Eunice Gitindi | - | Assistant Trustee |
| Thaddeus Morira | - | Kenya Progressive Nurses Association |

MIN. NO. 80/2013: PRELIMINARIES

The Chairperson called the meeting to order at twenty minutes past nine o'clock. The meeting started with a word of prayer by Hon. Dr. Patrick Musimba, followed by a round of introductions.

MIN.NO. 81/2013: MEETING WITH CABINET SECRETARY FOR HEALTH AND NHIF CEO TO DISCUSS THE PROPOSED SPECIALIZED MEDICAL CENTRE OF EXCELENCE, IN KAREN

The committee met the Cabinet Secretary for Health, Principal Secretary for Health, and the NHIF CEO to discuss the proposed Centre for Excellence in Karen that was initiated in 2001, and has since changed scope to proposed Medical Centre of Excellence.

The NHIF CEO comprehensively briefed the committee on the project.

The committee directed that the Fund to indicate the names of legal firms involved, just as it had indicated the valuers and architectural firms.

The committee noted that the project was initiated without the requisite approval from the Board and therefore that thorough investigations into the matter needed to be done.

WAY FORWARD

- i. The committee resolved that the Board ceases any activity on the project be put on hold to allow for further consultations on the matter.
- ii. The committee noted that there were several issues touching on NHIF that could not be deliberated in one committee sitting, and therefore resolved to have the matter discussed further in a retreat with NHIF officials. The members also noted that they needed more time to go through the lengthy report presented by NHIF. The date of the retreat will be communicated.

MIN.NO. 82/2013 IRREGULARITIES IN THE MINISTRY OF HEALTH

The Committee brought to attention of the Cabinet Secretary some irregularities noted in the Ministry of Health.

1. Irregular communication in the Ministry

The committee raised concern over information that Mark Bor (former PS Public Health & Sanitation) had signed letters in the month of July despite his term having ended and a new PS Prof Segor appointed.

The Cabinet Secretary concurred that it was irregular for Mr. Bor to sign the letters as Permanent Secretary but clarified that Mark Bor was in the Ministry to guide the Ministry in the transition period.

2. Fraud in the Ministry

The committee raised the concern over the information on the alleged loss of Ksh 80 million at the Ministry of Health, through transfer of funds to various bank accounts.

The cabinet secretary informed the committee that he was aware of the issue, and that the case was already with the criminal investigation department.

MIN.NO. 83/2013 MEETING WITH THE NURSES UNION TO DELIBERATE ON THE IMPENDING NURSES STRIKE

The committee met the leadership of the Nurses Union to discuss ways of averting the impending strike by the nurses.

The KNUN informed the Committee that it had issued a strike notice on 5th July, 2013 and the notice ends on 26th July, 2013. The Union has since met with the PS Health twice to address issues raised in the strike notice which are; -

1. Reverse transfer of personnel emoluments for nurses back to the National Government
2. Establishment of Health Service Commission
3. Implement the revised Scheme of Service of Nurses
4. Complete negotiation of CBA with the KNUN
5. Employ 12, 000 maternity nurses and 30 nurses per county
6. Abolish all contractual employment of nurses and absorption of all nurses on contract
7. Withhold the proposed organisation structure of the Ministry of Health until nurses are involved.

Resolutions/Way Forward

The Committee was in agreement that the issues raised are weighty but prevailed upon the Union to postpone/call off the strike to allow for further negotiations and give the new government more time to address their grievances. The Committee will also schedule a retreat with all stakeholders e.g. CIC, Ministry of Health, Treasury, Ministry of Devolution, Transition of Authority and CRA.

The Committee further resolved as follows:-

- i. **Health Service Commission:** On the formation of the HSC, the Committee implored upon the PS Health to fast-track drafting of the necessary Bill for formation of HSC.
- ii. **Gratuity for Nurses on contract:** The Committee directed the PS to ensure all nurses on contract are paid their rightful dues of 31% of their basic pay.
- iii. **Remittance of Union fees to the union:** The Committee directed the PS to remit union fees to the Union.
- iv. **Training of more nurses:** The Committee recommended that KMTC should train more nurses to meet the demand for trained nurses.

The PS made a commitment to effect the agreement above.

The Union requested for more time to go back for further consultations and make a decision whether to call off the strike or not.

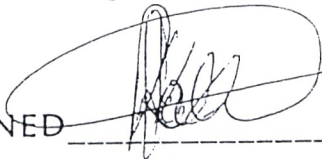
MIN.NO. 84/2013 ANY OTHER BUSINESS

There was no other business.

MIN.NO. 85/2013 ADJOURNMENT OF THE MEETING

There being no other business, the meeting was adjourned at 12.45 pm. The date of the next meeting will be communicated by notice.

SIGNED _____



(CHAIRPERSON)

DATE _____

9/04/2014

1701



HF/C/893 'B' / (65)

D/Committees

15th May 2014

Justin Bundi, CBS
Clerk of the National Assembly
Clerk's Chambers, National Assembly
Parliament Buildings
P.O. Box 41842-00100
NAIROBI

Dear *Justin,*

RE: MEETING WITH DEPARTMENTAL COMMITTEE ON HEALTH

Reference is made to your letter KNA/DCH/CORR/2014 (28) dated 11th March 2014 and the Meeting held with the Departmental Committee on Health on the 18th March 2014.

This is to report that the Fund communicated to the Ministry of Land, Housing and Urban Development (Public Works Directorate - Quantities and Contracts) forwarding the Consultants Fee Notes on the Proposed Karen Medical Centre of Excellence as follows :-

- 1. NHIF Letter Ref : HF/C/969 VOL. III/ (87) dated 27th March 2014.
- 2. Response from Ministry of Land, Housing and Urban Development Ref : Q29/091 dated 2nd April 2014
- 3. NHIF Letter Ref : HF/C/969 VOL. III/ (88) dated 10th April 2014
- 4. NHIF Letter Ref : HF/C/969 VOL. III/ (89) dated 15th April 2014

The Ministry of Land Housing and Urban Development has not responded on the said letters. The response will be forwarded to the Departmental Committee on Health upon receipt.

Yours *Sincerely,*
M.

S. ole KIRGOTTY
CHIEF EXECUTIVE OFFICER



Ms. S. Mwaruhini
Please inform the Committee.
Amim 20/

Encl.

HF/C/969/VOL III/87

27TH MARCH 2014

Principal Secretary
Ministry of Land, Housing and Urban Development
NAIROBI

ATT: CHIEF QUANTITY SURVEYOR - MR. NYAKIONGORA

Dear Sir

RE: PROPOSED MEDICAL CENTRE OF EXCELLENCE ON PLOT
L.R. NO.24968/2 : FEES FOR CONSULTANTS

Enclosed herewith is an analysis of Fee Notes for the Karen Project. The report highlights specific areas that need clarifications and professional opinion.

Please evaluate and advise us accordingly.

Yours faithfully



S. ole KIRGOTTY
CHIEF EXECUTIVE OFFICER



ff

MINISTRY OF LAND, HOUSING AND URBAN DEVELOPMENT

Public Works Directorate – Quantities and contracts

Works House,
Ngong Road, Nairobi
www.publicworks.go.ke

P.O. Box 30743 – 00100
Tel +254 (0) 20 272 3101
Fax +254 (0) 20 272 4504
Email: info@publicworks.go.ke



Ref No: Q29/091

Date: 2nd April, 2014

Mr. S. ole Kirgotty,
Chief Executive Officer,
National Hospital Insurance Fund,
P.O. Box 30443 – 00100,
NAIROBI.

Dear *Mr. Kirgotty,*

**RE: PROPOSED MEDICAL CENTRE OF EXCELLENCE ON PLOT
L.R. NO.24968/2: FEES FOR CONSULTANTS**

Refer to your letter Ref. HF/C/969/VOL.III/87 dated 27th March, 2014 on the above subject.

For us to be in a position to give our professional opinion, we need to see:

- (1) Your brief to the consultants and any other correspondence including consultancy agreements between yourselves and the consultants regarding this project.
- (2) Provide us with documents for the works that the Consultants have already undertaken on the project.
- (3) You need to confirm whether land is available since the Project Manager has pointed out that you have no land for the project.

Yours

Sincerely

**M. A. Nyakiongora, OGW
Ag. WORKS SECRETARY/CQS
For: PRINCIPAL SECRETARY**

HF/C/969/VOL III/88

10TH APRIL 2014

Principal Secretary
Ministry of Land, Housing and
Urban Development
NAIROBI

ATT: CHIEF QUANTITY SURVEYOR – MR. NYAKIONGORA

Dear Sir

**RE: PROPOSED MEDICAL CENTRE OF EXCELLENCE ON PLOT
LR NO.24968/2**


Refer to your letter Ref: Q29/091 dated 2nd April 2014.

Enclosed please find the following documents.

1. Brief to the Consultant's and other correspondence (in Costwise CD)
2. Work carried out by the Consultants as forwarded from the Project Manager

Kindly evaluate the fee notes and advise us accordingly.

Yours faithfully



**KARINGO WA NJOKA
FOR CHIEF EXECUTIVE OFFICER**

HF/C/969/VOL III/89

15th April 2014

Principal Secretary
Ministry of Land, Housing and
Urban Development
NAIROBI

ATT: CHIEF QUALITY SURVEYOR – MR. NYAKIONGORA

Dear Sir

**RE: PROPOSED MEDICAL CENTRE OF EXCELLENCE ON PLOT
LR NO.24968/2**

Further to our letter Ref: HF/C/969/VOL III/88 dated 10th April 2014 enclosed please find the following.

1. Bills of Quantities in two volumes (1 & 2)
2. Information from consultants (Project Manager)- (CD Format)

These documents have been forwarded to you for technical evaluation.

Kindly advise us accordingly.

Yours faithfully



S. ole KIRGOTTY
CHIEF EXECUTIVE OFFICER



STATUS REPORT ON THE PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

A BRIEF ANALYSIS

7TH MARCH 2014

1.0 INTRODUCTION

The comprehensive Report on the Proposed Karen Medical Centre of Excellence was submitted by Letter Ref: HF/C/969/VOL.III/ (54) dated 19th July 2013.

2.0 BOARD DECISIONS ON THE PROJECT

The Board of NHIF presented the status of the Project and the Board's position to the Cabinet Secretary Ministry of Health vide letter Ref: HF/C/969 VOL. III/ (48) dated 10th June 2013.

1. The Parent Ministry appointed the Board as the lead agent on the Proposed Karen Medical Centre of Excellence.
2. The Fund was the instructing Client on the commissioning of Consultants as the Lead Agent on behalf of the Government and there was need to involve the Ministry of Health and the National Treasury on the status of the project which was implemented based on the instructions from the Ministry of Health.
3. The Fund had already incurred substantial resources for services rendered by the Consultants following the instructions given by the Parent Ministry to revise the original project to adopt the Proposed Karen Medical Centre of Excellence. The Fund was faced with pending bills and the need to seek directions from the Government on the same was paramount to guide the Board on the said obligations.
4. The Board resolved that it would not proceed with the Project beyond the Feasibility Study as the finances were not available for the same and appropriate approvals had not been received from the National Treasury.
5. The funding of the Project was envisaged to be addressed through Public Private Partnerships and clarification should be sought from the Government on the extent the Board had funded the Project and the way forward for all pending bills and implementation of the development of the Project.

3.0 CABINET SECRETARIES LETTER

The Chairman of the Board received the response from the Cabinet Secretary instructing the Board to initiate Rapid Response to validate the pending bills for the Consultants and negotiate settlement. This letter was tabled to the Board during its meeting held on 25th January 2014 and the Board tasked the Project Committee to address the matter and present its Report to the Board.

The Project Committee of the Board convened on the 28th February 2014 and instructed the Consultants to submit the analysis of the Fee Notes for further review and submission to the Ministry of Lands, Housing and Urban Development for assessment. The Project Committee of the Board will convene to discuss the matter and advise the Board accordingly.

This is the current status and any further action on the matter will be addressed in consultation with the relevant Government authorities to ascertain the commitments of the Board of NHIF on the Proposed Project.



.....
S.ole KIRGOTTY
CHIEF EXECUTIVE OFFICER

D/Committees

407

684



**MINISTRY OF HEALTH
OFFICE OF THE PRINCIPAL SECRETARY**

Telegraphic Address
Telephone: Nairobi 254 -20 -2717077
Fax: 254 -20 - 2719008
Email: ps@health.go.ke

Susan Wanjiku

AFYA HOUSE
CATHEDRAL ROAD
P.O Box 30016 -00100
NAIROBI

When replying please quote

Ref: MOH/COMMS/14/1/21

30.10.2013

Mr. Justine Bundi
The Clerk to the National Assembly
Parliament Buildings
P.O Box 41842-00100
NAIROBI



Dear *Justine*

**RE: NHIF BOARD REPORT ON THE PROPOSED KAREN MEDICAL
CENTRE OF EXCELLENCE**

Reference is hereby made to your letter dated 25th October 2013 on the above mentioned subject matter.

Pursuant thereto, we submit our update brief as follows:-

1. That the Project has officially been halted pursuant to the Cabinet Secretary's letter dated 31st July, 2013 (copy attached).
2. The Ministry is currently consulting with the Attorney General for guidance on the risks involved and how they can be addressed and or mitigated.
3. The current statement on the pending bills indicate that the pending bills stand at Kshs.5,659,944,630.24.

We trust that the foregoing brief suffices for your purpose. However, we remain available for any further engagement in this regard.

Yours *Sincerely*



Prof. Fred H.K. Segor
PRINCIPAL SECRETARY

Copy to: Cabinet Secretary



MINISTRY OF HEALTH
OFFICE OF THE CABINET SECRETARY

Telegrams: "MINIHEALTH",
Nairobi
Telephone Nairobi 2717077
Email: cabsecretary@health.go.ke
When replying please quote

AFYA HOUSE
CATHEDRAL ROAD
P O Box 30016
NAIROBI

Ref. No. MOH/ADM/1/1/16

31st July, 2013

Mr. Simon ole Kirgotty
Chief Executive Officer
National Hospital Insurance Fund
P.O. Box 30443-00100
NAIROBI

Dear 

RE: PROPOSED KAREN HOSPITAL

Following the recent revelation of huge claims by the consultants of the captioned project and the subsequent dispute by NHIF, I wish to direct that no money should be paid until thorough investigations are completed on how the said fees were committed and incurred. Consequently, there should be no further commitments on this project.

You are further requested to provide a status report on the NHIF Car Park, whose cost is said to have escalated from the contractual sum of Kshs. 910 million to Kshs.3.9 billion.

I look forward to receiving the said status report within the next seven days from the date of this letter.

Yours




James W. Macharia
CABINET SECRETARY

C.C. Mr. Francis Kimemia, EGH
Secretary to the Cabinet
Office of the President
NAIROBI

Mr. Henry Rotich
Cabinet Secretary
The National Treasury
NAIROBI

The Principal Secretary
Ministry of Health
NAIROBI

HF/C/969/VOL.III/ (54)

19th July 2013

Justin Bundi
Clerk's Chambers
National Assembly
Parliament Buildings
P.O.Box 41842-00100
NAIROBI

Dear Sir,

RE: MEETING WITH HEALTH COMMITTEE TO DISCUSS PROPOSED NHIF
SPECIALISED MEDICAL CENTRE OF EXCELLENCE, KAREN

Reference is made to your letter KNA/DCH/CORR/ (13) dated 16th July 2013 on the above subject.

The Fund hereby submits the response to issues raised by the Health Committee and wish to state as follows:-

ISSUE RAISED:

COMPREHENSIVE BRIEF ON THE PROPOSED NHIF SPECIALISED MEDICAL CENTRE OF EXCELLENCE, KAREN.

RESPONSE:

1.0 INTRODUCTION

NHIF at inception envisaged to develop a model staff recreational/training facility in 2002. This was redesigned as a model medical centre of excellence in subsequent years. The Medical centre was adopted as one of the flagship projects in the Vision 2030 by the Government in the Health sector in the year 2010/11.

The Medical Centre will consist of four components namely;

- Referral Centre
- Medical Production Centre
- Medical Education Centre (Institute)

- Support facilities and Administration offices

2.0 BACKGROUND

The Board during the Sixth Special Board Meeting held on 16th January 2002 approved the establishment of a Training/Recreational facility for the Fund.

During the Twenty-Second Full Board Meeting held on 27th March 2002 the Board approved Kshs.95,000,000.00 for purchase of land for the Training/Recreational facility and made provision for Kshs.85,000,000.00 for the Resource Centre.

2.1 PURCHASE OF LAND

The Fund called for a valuation of the property on the 22nd January 2002. The Chief Valuer, Ministry of Lands and Settlement then valued the property for Kenya Shillings One Hundred Million Five Hundred Sixty Nine Thousand Seven Hundred Only (Ksh.100,569,700.00). The land L. R. 209/24968/2 was acquired from M/S Kaskazi Traders Ltd for the sum of Kshs.93,712,675/=.

The sale Agreement for the purchase of Land was signed on the 28th March 2002. The Transfer of the Title to the Fund was effected on 20th December 2002.

2.2 TREASURY APPROVAL

State Corporations are required to seek approval from the National Treasury on matters relating to acquisition and disposal of assets. In compliance with this requirement the Fund wrote to the Investments Secretary vide letter Ref. HF/C/960/6 dated 5th March 2002 (ANNEXE 1) seeking approval for the establishment of the envisaged Resource Centre. This was modeled on the concept of purchasing land and building a complex for staff training and welfare.

The Investment Secretary responded advising that the Ministry of Health was required to grant approval for the project after consultations with the Treasury. The letter requested for:

- (1) FEASIBILITY STUDY FOR THE PROJECT
- (2) THE CORPORATION CASH FLOW PROJECTIONS.

The Report was submitted to the Treasury through the parent Ministry vide letter Ref. HF/C/961/6 dated 5th April 2002 (ANNEXE 2). The Chief Executive Officer commissioned the Consultants in April 2002 without the approvals of the Board and the Ministries of Health and Finance as required. The following Consultants were commissioned:-

- | | | | |
|----|--------------------------------------|---|---------------------------------|
| 1. | Project Architects | - | Baseline Architects |
| 2. | Interior Designer | - | Two Design Architects |
| 3. | Project Quantity Surveyors | - | Ujenzi Consultants |
| 4. | Quantity Surveyors (Interior (Works) | - | Costwise Associates |
| 5. | Mechanical/Civil Engineers | - | Professional Consultants |
| 7. | Project Electrical Engineers | - | Kaigutha & Partners |
| 8. | Project Manager | - | Friscan Construction Management |

2.3 COMMISSIONING LETTERS BY THE CHIEF EXECUTIVE OFFICER ON THE PROPOSED RESOURCE CENTER (ANNEXE 3)

2.4 TREASURY COMMUNICATION

After evaluation of the proposed project, the Permanent Secretary Ministry of Health vide letter Ref. Misc./13/A/ Vol. V dated September, 19th 2002 (ANNEXE 4) forwarded the response from the Treasury dated 20th August 2002 stating that there was no justification for the Project and therefore did not grant the approval for the Project. This letter was received on 20th September 2002 while the commissioning of the Consultants was done in April 2002.

2.5 CONSULTANTS DEMAND FOR FEES

The Consultants submitted the demand for fees on the matter. The Chief Executive Officer referred the matter to the Board for directions, as he had no authority to pay in the absence of Board Minutes approving the Project. This was discussed during the Fortieth Full Board Meeting held on 21st June 2006.

The Board observed that the records indicate that it did not approve the Commissioning of Consultants on the Project. It also took note of the fact that the Board, Ministry of Health,

and Ministry of Finance did not authorize the Project as required. However, the Fund had already commissioned the Project by appointing Consultants to carry out feasibility and design works.

2.6 ARBITRATION BY ARCHITECTS AND QUANTITY SURVEYORS ON THE PROPOSED RESOURCE CENTER

The Consultants then commenced Arbitration proceedings against the Fund for the demand for fees. The Board resolved to defend its position under the Arbitration process.

The Consultants were commissioned in accordance with the Architects and Quantity Surveyors Act Cap 525 of the Laws of Kenya to carry out a feasibility study on the development of the facility. The consultants did the work as commissioned and submitted their report together with their fee notes for Kshs. 734,524,029.25. The Arbitrator after reviewing the matter reduced the claim from 734,524,029.25 and awarded the Consultants Kshs 352,131,345.15.

Following the decision of the Arbitrator and claimants' filing of documents to enforce the Award, to the Funds Lawyers gave their opinion that the Award be challenged at the High Court. The Fund disputed the award and proceeded to the high court to seek redress.

2.5 ATTORNEY GENERAL

Management sought the Attorney General's Opinion on the matter and the Attorney General advised that the award may not be successfully challenged in Court on the basis that the procurement procedures were not followed¹.

The matter was discussed during the Special Full Board Meeting held on 20th August 2007 but the Board resolved that the matter proceeds in Court with a view to setting aside the Arbitration Award.

However, for purposes of trying an out of Court Settlement, Management was tasked to pursue without prejudice negotiations with the Consultants on the Award based on the figure of Ksh.1,250,000,000.00, which was quoted in the Chief Executive Officer's commissioning letter to the Project Manager referred above.

¹ Attorney General's Letter attached as Annex 20.

This was discussed during the Forty Third Full Board Meeting held on 26th September 2007 and after deliberating on the options given the Board reiterated that the matter proceeds in Court.

3.0 DEVELOPMENTS AND INSTRUCTIONS FROM THE MINISTRY OF MEDICAL SERVICES

The Minister for Medical Services in June 2008 wrote to the Fund vide letter Ref. Conf. Misc/12/A/ Vol. XIII/ (58) dated 11th June 2008 (ANNEXE 5) stating that the Project proposal gave a detailed rationale for building the Centre, which is considered sound. The Minister noted that Treasury, nonetheless, went ahead to refuse to grant permission for the Project to go ahead on the ground that there was no adequate justification for the Project.

The Minister noted that the Chief Executive Officer proceeded to commission work on the project without two things:

- (a) Approval of the Board
- (b) Approval of the Treasury

The Minister stated that the Project had been commissioned and the options open to the Board was to terminate the Court Process and open discussions with the Consultants. The designs would then be used to construct as intended to contribute to the Vision 2030 within the medical services area.

The Board response to the Minister was vide letter ref: HF/C/944 VOL. VI/ (179) (ANNEXE 6) stating that the Court Case proceeds to its logical conclusion and that the Board had put in place an Investments Policy, which prohibits further investments in Real Estate in favour of increasing rebates, which is its core mandate.

The Minister for Medical Services further wrote on 4th December 2008, letter ref: MMS/ADM/1/16/I (ANNEXE 7) on the following:

- Need to terminate the court processes
- Negotiation with the Service Providers to agree on the reasonable professional fees to be paid in accordance with the work done and established law;

- Re-engineering the construction process in a proper way.

During the Full Board Meeting held on 10th December 2008, the Minister's letter was tabled but the Board reiterated its earlier position for the matter to proceed to Court.

Upon further consultation with the parent ministry and the Attorney General, the Board and the consultants recorded a consent order in the High Court and the matter was settled. The consultants were paid a sum of Kshs 407,107,645.00.

Claims lodged by engineers totaling Kshs 333,846,784 were arrived at after settlement deeds were entered into on 24th June 2011. The claims were fully paid.

4.0 MEETING WITH THE MINISTRY OF MEDICAL SERVICES

On the 7th January 2009, the Minister convened a meeting at Afya House which was attended by the Minister, Assistant Minister, Permanent Secretary and Head of Policy and Planning Division, members of the NHIF Board and the Consultants. The Minister for Medical Services briefed the meeting as follows:

- The Minister stated that he had made a presentation to the Cabinet Sub-Committee on the Services Sector, which had approved implementation of the project, to be done in collaboration with development partners who had expressed support and commitment thereto. The Minister noted that he had written to NHIF and given direction but no action had been taken.
- He noted that the Original Project would be revised as a Medical Center which shall be a center of research and development in healthcare, and the first of its kind in the region. Establishment of an advanced medical center was both timely and necessary in order to contribute to the development of a service economy in Kenya.
- The drawings and other works done by the Consultants would be used for implementation of the project to avoid further expenditure in commissioning new works.
- That a Committee on the Project to be chaired by the Permanent Secretary with representation from NHIF and Government shall be set up. The proposed Medical Center shall be NHIF/the Ministry's contribution to the ideals of Vision 2030 and realization of Social Health Insurance

5.0 PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

5.1 THE PROJECT AS A FLAGSHIP FOR VISION 2030

In May 2008, the Ministry of Medical Services identified the envisaged Resource Centre as one of the flagship projects for the realization of the Kenya vision 2030 in the Health sector.

A task force was appointed to prepare a rapid Assessment of the need for a Medical Resource Centre in Kenya situated in the context of Kenyan healthcare referral system capable of providing a regional destination for medical tourism as envisioned in vision 2030 medium term plan. The task force concluded its report on 24th October 2009 by giving an impressive diagrammatic representation of the appropriate referral linkages of the Medical Resource Centre with the rest of the Kenyan Healthcare2 Systems.

However, the Ministry of Medical Services noted that the Fund was not able to finance the project and sought strategic partners with a view to establishing a framework for funding.

In October 2008, a Cabinet Memorandum was prepared and presented on the project by the Minister for Medical services. The Memorandum requested the cabinet to:

1. Approve establishment and construction of the proposed Medical Resource Centre- Karen.
2. Mandate NHIF to explore potential strategic partners for the development of the project.
3. Approve establishment of Medical Board of Trustees to manage the Medical Resource Centre.

The cabinet referred the matter to the Cabinet sub-committee on social, health and services for further deliberations.

The Cabinet sub - committee recommended further appraisal and rationalization of the project and seek concurrence of the treasury. Subsequently, the Ministry carried out a consultative meeting on 18th August 2009 to address further appraisal and rationalization of the project.

In September 2009, a delegation of Ministry of Medical Services staff led by the Minister for Medical Services, accompanied the NHIF's CEO, a team of medical experts and the technical consultants visited New Delhi, India to identify best practices in various medical institutions.

During the same period and follow up to the cabinet deliberations, consultations were carried out with various universities with a view to establish their capability for potential sponsorship/partnership in the development of the envisaged medical Resource Centre. Moi University appeared to be the most promising largely because of their resource base and their desire for expansion in the medical field.

In June 2010, the Government through the Office of the Prime Minister vide letter Ref. OPM.1/1NF/89/125 dated 9th June 2010 (ANNEXE 8) directed the NHIF management of NHIF to liaise with Development Bank of Kenya with a view to preparing the pre-requisite documentation and project appraisal, and obtaining necessary approvals to facilitate implementation.

The communication indicated further that the project was identified as a strategic health sector project to be financed through a line of credit from the Development Bank of China, in partnership with the Development Bank of Kenya. The matter was presented to the NHIF Board meeting held on 12th July 2010. The Board of NHIF tasked Management to respond to the Office of the Prime Minister and the Development Bank to seek further clarification on the communication.

The Minister for Medical Services further wrote on 15th September 2010 attaching a letter from Synergy Investments Ltd and sought advice on the matter from the Board of NHIF. (ANNEXE 9)

This was presented to the Board of NHIF during a meeting held on 14th October 2010 where it was noted that arising from the correspondence with the Government, interested parties had given indication of willingness to provide funding. Management was tasked to have further consultations with the Ministry of Medical Services on the sources of funding and framework for implementation.

The office of the Prime Minister wrote to the Fund vide letter referenced OPM.1/INF/89/165 dated 29th March 2011 (ANNEXE 10) on bilateral talks held with China Development Co-operation. The letter indicated that in a meeting held in 18th March 2011 between the Prime Minister and Vice President of the People's Republic of China, Development Bank of China and Development Bank of Kenya, the proposed NHIF specialized Medical Centre was discussed. The Fund was requested to work with Development Bank of China and Development Bank of Kenya to progress the implementation through financing by the Development Bank of China.

The Permanent Secretary, Office of the Prime Minister vide letter Referenced OPM1/INF/89/165 dated 28th March 2011 (ANNEXE 11) further communicated to the NHIF to facilitate discussions with the Development Bank of Kenya. The Permanent Secretary Ministry of Medical Services wrote on 7th April 2011 vide letter Ref. no. MMS/ADM/1/16 VOL.II/ (118) (ANNEXE 12) requesting that the matter be referred to the Board for approval and concurrence.

The Board of NHIF tasked Management to liaise with the Consultants to ascertain the implication of the instructions from Government.

5.2 THE PROJECT REPORT

The Chief Executive Officer commissioned Baseline Consultants to prepare a detailed concept paper and implications of the proposals outlined by the Government on the project. Vide letter referenced HF/C/969 VOL. II/26 dated 21st April 2011 (ANNEXE 13). The Consultant was instructed to liaise with all relevant Consultants and bodies to prepare a detailed business proposal and implementation documents to reflect the implications envisaged in the instructions from Government.

The Consultants presented to the Project Committee Business Plan, the rationale of the Project, Capacity, Project Design and the Feasibility Study on the Project. The Status Report tabled is summarized below:

a) Proposed Resource Medical Center

In the year 2010/2011, the Medical Centre was adopted in The Kenya Vision 2030 as one of the flagship projects in the health sector with a view to establish a model centre of excellence and a third referral hospital in Kenya in collaboration with existing and promising teaching and referral institutions among others.

With these developments, it was proposed that the model medical centre should be re-designed to specialize on pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, specialized surgery and physiotherapy among others.

It was considered also that the Institute will give priority and even high attention to expanded development and production of nurses, clinical officers and doctors as part of the efforts to address acute and persistent shortage of these cadres of the medical personnel.

In addition, it was considered that the Institute will give equal priority and attention to expanded skills and competencies of the health/medical administration, accounting and financial management with a view to address a wide range of challenges related to administration and financial management in medical institutions.

b) The Need and the Rationale

The Proposed Medical Resource Centre had been designed to provide specialized services related to pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, surgery and physiotherapy; and to expand the production of trained personnel in these and related areas.

c) Feasibility Study and Business Plan

The feasibility study addressed an assessment of the demand, nature and levels of medical services to be provided, target segment of the population, the scope and the level of infrastructure to be developed, preliminary estimates of the capital investments and expected revenue.

A survey was carried-out with 75 hospitals accredited to NHIF. The hospitals that were visited and/or interviewed included Kenyatta National Hospital (KNH), Moi Teaching and Referral Hospital (MTRH), Provincial Hospitals, Nairobi Hospital, Aga Khan University Hospital, Pandya Hospital, Machakos District Hospital, Kilifi District Hospital and Diani Beach Hospital among others.

The local institutions that were considered and visited with a view to establish possible collaboration network included the School of Medicine (Moi University), Moi Teaching and Referral Hospital (MTRH), Aga Khan University Hospital, Strathmore University, KEMU and Kenya Medical Training College (KMITC) among others.

In addition, attention was given to Kenya Polytechnic University College and Mombasa Polytechnic University College because of various training programmes in medical sciences, medical technology and pharmaceutical technology and management.

a) Business and PPP Model

The feasibility study and the business plan recommended:-

- That the Centre be operated based on quality and competitive services at economic rate in order to maintain sustainability and the capability for improvements over the years in all the areas of service delivery.
- That the centre and its operations be structured in ways that will promote responsiveness to the population dynamics, trends in disease patterns, technology progress, economic conditions and market forces and maintaining at minimum most of the challenges that have had negative impact on the quality and competitive services at economic rate in the existing medical institutions.
- The adoption of partnership and Public Private Partnership (PPP) business model as a measure to ensure affordable investments by various parties, rapid delivery of services and guarantee for continued improvement of service delivery and infrastructure.

b) Social Economic Benefits

The feasibility study states that the core benefits will include the establishment of the Proposed Medical Resource Center that will support specialized medical services, medical and pharmaceutical production and medical education for various the cadres of manpower in the health/medical sectors.

In addition, it will have other secondary benefits that will include expanded employment opportunities, technology transfer, a wide range of backward and forward linkages and additional ancillary facilities.

c) The Overall Viability and Financial Returns

It was expected that the facility will operate at an average capacity of seventy (70%) per annum at the commencement of the operations.

Based on the various services to be provided at the completion of the construction and related assumptions, the projected annual income in the first year of operation was computed at US \$ 39 million before taxation and after addressing all annual outgoings and operational costs.

Based on various reviews, available data and projections, the annual outgoings and operational costs were computed at approximately 75% of the gross revenues. The initial returns will be expected by the 7th year of the project implementation.

d) The overall Project costs and capital investment

The feasibility study and the business plan indicated that the total project estimates was US\$ 267 million; covering all the components that include the cost of land and maintenance, consultancies, project management, construction, equipment, furniture, furnishings, and the cost of finances

e) Project funding model, Construction and Grace period

The feasibility study and the business plan recommended that seventy percent (70%) of the project costs be secured through external borrowing at the interest rate 5% per annum and the balance of thirty percent (30%) be sourced locally at prevailing commercial

lending rates. The reports emphasized that such arrangement was necessary taking into account the fact that about 7% of the project costs had already been raised locally.

The external borrowing will be directed primarily to construction, expansion, supply of medical equipment, development of staff and capacity building for service delivery.

f) The Capital Investment and Loan repayment

The feasibility study and the business plan indicated that the repayment of the capital investment was expected to commence at the beginning of the 11th year, i.e. 2022/2023 and continue for a period of twenty (20) years. Projections carried-out indicate that the facility was expected to realize an income growth of over 5% per annum over the loan period.

g) Cash flow, internal rate of return and viability

The feasibility study and the business plan indicated the break-even point, from the various income streams, will be between 18% and 19% of the rate of interest. The Internal rate return (IRR) was determined to be 18.23% and the average annual rates of return (profitability) over the period of twenty years will be 24.21%.

The Chief Executive Officer further instructed Baseline Architects Ltd vide letter Ref: HF/C/969 VOL. II/ (85) dated 6th February 2012 (ANNEXE 14) to finalise and forward Tender Documents and Bills of Quantities.

6.0 EXPRESSION OF INTEREST

The Board of NHIF approved the process the sourcing of Expression of Interest (EOI) to determine the proposals outlined above. The Report was tabled to the Board in the Meeting held on 3rd April 2012 as per the record of the said Minutes.

The Expression of Interest for Construction, Development and Financing of Karen Medical Centre of Excellence and Institute was advertised on the print Media on 7th November 2011(Nation Newspaper) and on 9th November 2011 (Standard Newspaper).

The scope of work for the construction and development was as follows:

- Construction and development for (1) The Referral Centre (2) The Medical Production Centre (3) The Medical Education Centre (Institute), and (4) The support facilities and Administration offices.
- Equipping the centre with medical technologies for pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology and specialized surgery among others.
- It will also include equipping the institute with learning and teaching technologies including e-health and e-learning infrastructure.
- Carrying out capacity building intended to accelerate delivery of services prior, during and after the construction of the Karen Medical Centre of excellence and Institute. It is envisaged that in the first seven(7) years, the centre will maintain a staff establishment consisting of Director and Deputy Directors; Registrar & Deputy Registrars; Deans and Associate Deans; Chief Nurse, Nurse Managers and Nurses; Doctors and Consultants; Technologists and Technicians; Chief Librarian and Managers; Chief Information officers and ICT Managers; Professors and Lecturers; and Administration support staff (Secretaries).
- In addition, the staff whose assignments will be periodical will be maintained on part-time basis and will include some of the Professors, Lecturers, Doctors, Consultants, Technologies and Technicians.
- Availability of Financing options for the above and advantages. It is envisaged that the EOI will provide options that will include (1) Build Operate and Transfer (BOT) 2. Build and Transfer (BT) in conjunction with pure loan, 3. Build and Transfer (BT) in conjunction with Government Quarantines and 4. Any other viable financing option.

Responses were opened on 23rd November 2011. The following thirteen (13) firms responded.

1. China Gezhouba Group
2. Bam International

3. ShapoorijPallonji and Company Ltd
4. Phillips Medical Systems e. A Ltd
5. N. K Brothers Limited
6. China Wu- Yi Company Ltd
7. China Camce Engineering Ltd
8. Intermediate Global Consultants
9. Volcanic Plumbing Works
10. Pal International
11. Armstrong and Duncan
12. Ceddex& S A IBT Group
13. Africare Limited

The Board of NHIF submitted the background Concept Paper and Feasibility Study to the Ministry of Finance in compliance with Legal Notice No.38 Of 2009 for consideration and approval vide letter Reference HF/C/969 VOL. II/86 dated 20th January 2012. (ANNEXE 15).

In the interim the Parent Ministry requested for a brief on the Project vide letter Ref: MEET/37/A/VOL.III/17 dated 27th April 2012 (ANNEX 16) to be submitted to the Cabinet Office.

The Chief Executive Officer responded vide letter Ref: HF/C/969 VOL. II/ (105) dated 30th April 2012 (ANNEXE 17) by providing a comprehensive brief on the Project.

The Ministry of Finance responded on the Project vide letter Ref: ZZ/MoF/253/016 'K' dated 30th April 2012 (ANNEXE 18) and gave advise on the way forward while noting that the Study done by the Consultants would suffice as a pre-feasibility study. The Treasury advised that a proper feasibility study should be carried out by International Health PPP Consultants. This would thereafter guide in determining the funding of the Project.

7.0 BOARD DECISION ON THE PROJECT

The Board of NHIF in its Full Session held on 27th June 2013 considered the following:-

- i. The Board had already incurred substantial resources on the Project and the need to seek directions from the Government on the same was paramount to guide the Board on the way forward for the Project.
- ii. That the Board should not proceed with the Project beyond the Feasibility Study as the budgetary allocation of the same had not been provided for and appropriate approvals had not been received from the National Treasury.
- iii. The funding of the Project was envisaged to be addressed through Public Private Partnerships and clarification should be sought on the extent the Board had funded the Project and the way forward for all pending bills and implementation of the development of the Project.
- iv. A report on the status of the Project and the pending bills should be submitted to the Parent Ministry and Treasury for further direction.

8.0 LETTER TO CABINET SECRETARY MINISTRY OF HEALTH

The Board of NHIF presented as a status of the Project and the Board's position to the Cabinet Secretary Ministry of Health vide letter Ref: HF/C/969 VOL. III/ (48) dated 10th June 2013 (ANNEXE 19).

1. The Parent Ministry appointed the Board as the lead agent on the Proposed Karen Medical Centre of Excellence².
2. The Fund was the instructing Client on the commissioning of Consultants as the Lead Agent on behalf of the Government and there was need to involve the Ministry of Health and the National Treasury on the status of the project which was implemented based on the instructions from the Ministry of Health.
3. The Fund had already incurred substantial resources for services rendered by the Consultants following the instructions given by the Parent Ministry to revise the

² Refer to annexe 12

original project to adopt the Proposed Karen Medical Centre of Excellence. The Fund was faced with pending bills and the need to seek directions from the Government on the same was paramount to guide the Board on the said obligations.

4. The Board resolved that it would not proceed with the Project beyond the Feasibility Study as the finances were not available for the same and appropriate approvals had not been received from the National Treasury.
5. The funding of the Project was envisaged to be addressed through Public Private Partnerships and clarification should be sought from the Government on the extent the Board had funded the Project and the way forward for all pending bills and implementation of the development of the Project.

The Board of NHIF is awaiting further direction from the Cabinet Secretary.

9.0 CONSULTANCY FEES

9.1 PAYMENTS ON THE ORIGINAL SCOPE OF WORKS

A total of Kshs 1.5 billion was spent on the original design. This amount comprises of cost of purchase of the land, quantity survey, business plan and financial analysis consultancy, legal fees, architectural design services fees and feasibility study. These are analyzed as below;

SERVICES	COSTS (Kshs)
Land Purchase	93,712,675.00
Legal fees on Arbitration	56,113,601.55
Professional fees	29,823,000.00
Feasibility study	229,125,964.20
Quantity Survey costs	413,708,920.25
Architectural work & design	457,450,374.15
Electrical Engineering	89,444,064.30
Civil & Mechanical engineering	169,611,863.95
Others	153,990.00
TOTALS	1,539,144,453.40

9.2 PAYMENTS ON THE REVISED SCOPE OF WORKS

In summary, the table below shows the various works done and the respective amount paid for the services.

SERVICES	PAYEE	COSTS (Kshs)
Feasibility study	Ujenzi & Baseline Architects	123,449,017.85
Quantity Survey costs	Ujenzi Consultants	185,668,197.55
Architectural services & design	Baseline Architects	162,051,691.60
Financial Analysis & Business plan	Baseline & Ujenzi Consultants	105,676,946.35
Architecture consultation & related tasks	Baseline & PKF Consulting	21,143,760.00
Licensing & Approval fees	NEMA & NCC	8,088,935
TOTAL PAYMENTS		606,078,548.35

9.3 PENDING FEENOTES

Project Manager was tasked by the Board of NHIF to prepare a comprehensive brief on the Consultants Fees. The pending Consultants Fees will be determined upon verification by the Ministry of Public Works.

The Board is consulting the Ministry of Health for further direction on the way forward on the Project.

(The Annexes are attached)

Yours faithfully,



S. ole KIRGOTTY
CHIEF EXECUTIVE OFFICER

NATIONAL HOSPITAL INSURANCE FUND

NHIF

NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

REF No. HF/C/960/6

Date: _____ 20__

ANNEXE 1 (13)

05 March 2002,

Mrs. Esther Koimett
Investment Secretary
Ministry of Finance
Treasury Building
Nairobi

Dear *Esther,*

RE: ESTABLISHMENT OF A RESOURCE CENTRE

The Board of Management of NHIF has laid emphasis on staff welfare for effective service delivery and productivity.

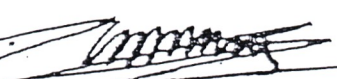
In an effort to enhance staff ability and general welfare a need was recognised to establish a resource centre for the purpose. The Board has approved implementation of the Project and adequate finances allocated for the process.

The Project is expected to commence on 1st July 2002 after the completion of Medicare Project.

This is to request for your approval for the establishment of the Resource Centre.

Yours

Sincerely,


IBRAHIM M. HUSSEIN, OGW
CHIEF EXECUTIVE

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

REF NO. HF/C/961/6

Date 20

5TH APRIL, 2002

CONFIDENTIAL

ANNEXE 2

(14)

The Permanent Secretary,
Ministry of Health,
P.O. Box 30016,
NAIROBI.

RE: ESTABLISHMENT OF A RESOURCE CENTRE

The Fund has submitted a request for the approval of the above project to the Ministry of Finance who have advised that this be submitted through the Ministry of Health, together with the project's feasibility study and cashflow projections.

We have now completed a feasibility study for this project and the Fund's projected cash flow for the next fiscal year. We have funds in the current financial year and have factored in some money for the next fiscal year.


The establishment of this facility will no doubt improve the quality of services our staff offer to our contributors. The project was approved by the Management Board in its Meeting held on 16th January, 2002.

Kindly convey your authority for us to establish a Resource Centre.

Enclosed herewith please find the following documents:-

- (i) Feasibility study for the project.
- (ii) The Fund's cashflow projections.

Yours truly,


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

CONFIDENTIAL

PROPOSED RESOURCE CENTRE
AT
KAREN - NAIROBI
FOR
NATIONAL HOSPITAL INSURANCE FUND
PROJECT PROPOSAL
AND
FEASIBILITY STUDIES

CONSULTANTS

Consulting Engineers
S.R. Manga & Associates,
P.O. Box 23190,
NAIROBI.

Consulting Quantity Surveyors
Ujenzi Consultants,
P.O. Box 50972,
NAIROBI.

Project Managers,
Friscan Construction Management,
P.O. Box 26613,
NAIROBI.

MARCH 2002

PROPOSED RESOURCE CENTRE

TABLE OF CONTENTS

1.00 EXECUTIVE SUMMARY

2.00 CLIENT'S BRIEF

- (a) Introduction
 - (b) Type of Resource Centre
 - (c) Sources of Skill Acquisition
 - (d) Facilities
 - (e) Functions of Resource Centre
 - (f) Benefits of Resource Centre
 - (g) Conclusion
-
- (h) Deep Plan

3.00 PROJECT VIABILITY REPORT

- (a) Project Costs
 - (b) Anticipated Annual Returns
 - (c) Computation of Pay Back Period
 - (d) Average Annual Rates of Return (Profitability)
-
- (e) Internal Rate of Return (IRR)

EXECUTIVE SUMMARY

PROPOSED RESOURCE CENTRE ON L.R. 24968/2 - KAREN NAIROBI

PROJECT PROPOSAL AND VIABILITY REPORT.

EXECUTIVE SUMMARY

The Fund has identified a 9.250 ha piece of land in Karen Nairobi and is desirous of purchasing and developing a Resource Centre. The Board has approved the development as it will also form a solid investment in addition to the current stock of assets of the Fund.

The Fund has instructed consultants to prepare a feasibility report whose findings recommended the project as viable.

The highlights of the report are as follows:-

- (a) There is need for in-house training in order to achieve continuous and uniform dissemination of essential skills and knowledge. This will eliminate the need for "ad hoc" seminars and courses whose intermittent approach does not ensure optimal results.
 - (b) In-house training facilities will save the Fund in excess of Kshs 40,000,000/- per annum which is the current average expenditure on training.
 - (c) The Fund will not only realize savings on training but will also earn income from hiring facilities such as theatres, seminar rooms, accommodation, sports facilities etc.
-
- (d) In addition to the above, the viability report has established that against the capital expenditure of Kshs 1,200,000,000/- over a projected period of four (4) years to complete and hand over the project;
 - i) The payback period is 7 years and 3 months.
 - ii) The average annual rate of return (profitability) on the project is 20.70%.
 - iii) The internal rate of return has been established as 12.89% which is close to average working rates of interest in the money market.
 - (e) The project value of this development as an asset will be in excess of Ksh 1,500,000,000/- which will form a solid contribution to the current investments of the Fund.
 - (f) In terms of cost benefit analysis, the social benefits to be derived from the training envisaged, particularly Total Quality Management (TQM), cannot be overemphasized.

In conclusion therefore, the proposed project is viable given that the Fund shall not resort to borrowing since it has sufficient surplus reserves in financial institutions in excess of Kshs 3,500,000,000/- and continues to make monthly surpluses in excess of Kshs 140,000,000/-.

CLIENT'S BRIEF

PROPOSED NHIF RESOURCE CENTRE

Aim:

The aim of this report is to explore the need for the development of cohesive, knowledgeable and empowered employees for delivery of standard service.

INTRODUCTION

The National Hospital Insurance Fund (NHIF) was established through an Act of Parliament NHIF Act 1998.

The function of the Fund is to provide for contributions to and the payment of benefits out of the Fund.

The Fund discharges its functions by supporting the financing of health care country wide. The product

concern is the provision of health insurance to customers/ contributors. This means customers attach a value to services being given. The value includes attributes, benefits, and customer needs, which are ever changing

with the times. The services are given by highly trained personnel who are stationed at the NHIF

headquarters Nairobi, branch offices in all provincial and a number district branches. Besides there are some centres though not provincial administrative centres have merited branch offices as they enjoy wider

membership of contributors.

For continued efficient delivery of the valued services to its clientele and exploration of new methods of service delivery, it becomes necessary to establish a focal point in which to train, prepare and update its staff in this ever changing world. This can best be done at a Resource Centre.

Use of alternative training institutions and methods of dissemination of skills will not adequately address the special to task skills.

TYPE OF RESOURCE CENTRE

Development of training institutions in the country has really declined as demand for specific training courses for institutional problem solutions has increased. Institutions have thus opted for training through seminars

and *ad hoc* courses. These sessions do not achieve uniformity as the standards vary and hence different results. In this case, large sums of money are required to train staff by using more experimental methods that include seminars, scholarships and private institutions.

Particular in house training will have fixed frame of reference where all training and improvement of the same will be based.

Where essential training is offered to some members of staff externally, it is through the Training Centre that dissemination of the relevant knowledge is passed on to those who did not get a chance to acquire the same externally.

Since technology is dynamic and is constantly changing, new training solutions are required to constantly update the workforce so that they are at tandem with the new changes, if continual improvement in their output is realized. This is best achieved by having an in-house training facility to cater for these changes.

ALTERNATIVE SOURCES OF SKILL ACQUISITION

The Central Government's policy has since shifted from offering training, instead expects the private sector to lead in offering relevant training in the particular industry, to provide demand driven quality training. Since these training institutions are wholly profit oriented and demand driven, they may not be able to provide the requisite courses that meets the training needs of the diverse institutions.

It should be recognized that nhif is a government vehicle of delivering and supporting the financing of healthcare to difficult and inaccessible areas, where profit oriented service providers are not ready to undertake.

Besides the above competition on delivery of services can not be ignored, as this will always strengthen type and how services are delivered. This therefore calls upon the use modern methods to achieve Total Quality Management (TQM).

TQM philosophy concentrates on process improvement, customer and supplier involvement, teamwork and training to achieve customer satisfaction, cost effectiveness and defect free quality work.

This requires the continuous improvement of the process that makes the product rather than attempting to inspect or test the products to achieve quality.

To achieve total quality service the Fund requires its staff to:

- a. Continuously improve their skills in service delivery towards customer satisfaction.
- b. Acquire skills which will reflect and display a positive Management commitment.
- c. Build up of comprehensive approach to issues through constant training.
- d. Develop team spirit and team work for mission accomplishment.
- e. Maintenance of high standards of service delivery.

This can best be done through a comprehensive training strategy within an appropriate Resource Centre.

FACILITIES

We propose to have the following facilities in place to serve the functions of training.

A. Training Centre

- Lecture Halls – Advanced facilities; IT setup.
- Seminar rooms
- Laboratories
- Research Centre
- International Conference Room with translation facilities

B. Sports complex

- Tennis Court
- Basketball Pitch
- Squash Court
- Gymnasium - state of the art equipment
- Hockey Pitch
- Football Pitch
- Athletics Track
- Swimming Pool – International standards

C. Accommodation for:

- ~~Dinning Hall~~
- Staff Housing
- Students' Accommodation

D. Central stores

Main stores for NHIF could also be constructed in this complex.

FUNCTIONS AND ROLES OF THE RESOURCE CENTRE.

Supporting and financing healthcare would not fulfill the functions of the fund without being a leading example in the maintenance of good health.

Therefore the provision of sports facilities cannot be divorced from NHIF's goals and objectives as it is an active player in the provision of Health services in the country in furtherance to building a healthy nation.

EXPECTED BENEFITS FROM THE ESTABLISHMENT OF THE RESOURCE CENTRE

Benefits attributed to the Resource Centre includes:

- a. Sports Complex - Development of sports in the country.
International standard facilities to supplement existing ones and provide Staff recreation.
- b. Training Institution/Sports Complex can be used for commercial purposes.
- c. NHIF Training Centre will offer courses specifically targeting provision of quality health services and general improvement of staff output towards realization of NHIF corporate goals and objectives.
- d. Transfer and Sharing of external of Medical related technological knowledge to Kenyan from other institutions.
- e. Other Health Management Organizations could use the institution for their training needs.
- f. ~~Main Training Centre for the East and Central African Region. (To be promoted as a premiere training institution in the region).~~
- g. Viable as an important Manpower supply to the Nation/region.
- h. Training base to cover more areas –dissemination of Medical Related Skills.
- i. Flexibility for change implementation

CONCLUSION

For being in the service industry, it calls for highly personalised service, which will contribute to the development of loyal customers, which in turn create referral customers and make the organization live to its name and mission of existence.

To realize this requires the enabling the employees to be highly motivated. In today's complex world human energy is best mobilized by empowering people with ideas and information, and not by telling them what to do. A Resource Centre is the most suitable forum for empowerment.

The proposed Training Centre will play a very importance role in the adding value of services offered by NHIF in that:

- a. Training will be tailored to the needs of the work force to concentrate on process improvement, customer and supplier involvement, teamwork and training to achieve customer satisfaction, cost effectiveness and defect free quality work.
- b. Long-term and uninterrupted training courses can be achieved.
- c. Training institution could be used as a profit making venture-Leasing of facilities - Training others.
- d. Training facilities can be structured to have ambiance such as overnight accommodation, quiet place and to include visual and presentation aids in the lecture halls.
- e. In line with current challenges, the Training Centre will offer courses to regularly re- assess its business approaches and practices in order to provide services that meet personalized and standardized needs desired by the contributors/stakeholders.
- f. Training Centre will help in training a committed and productive team of employees.

March 2002

FINANCIAL VIABILITY

PROPOSED RESOURCE CENTRE FOR NHIF.

FINANCIAL VIABILITY ANALYSIS

1.00 Project Costs.

(a)	Cost of land	= Kshs 82,610,000.00
	<u>Add</u> Stand premium, stamp duty legal fees etc @ 15%	12,390,000.00
(b)	Cost of construction	= 920,850,000.00
	<u>Add</u> Professional fees and project management @ 20%	= 184,150,000.00
	Total Costs =	= Kshs <u>1,200,000,000.00</u>

2.00 Anticipated Annual Returns

(a)	Income from Residential Rooms (in year 2006): 50N0. rooms x 4,000/- per day x 365 days x 75% occupancy	= 54,750,000.00
(b)	Income from Bar & Restaurant (In year 2006): Anticipated turnover = Kshs 100,000,000/- p.a. Anticipated revenue @ 15% of 100,000,000/-	= 15,000,000.00
(c)	Income from Guest House facilities (Theatres, Seminar and Board Rooms etc), say	= 12,000,000.00
(d)	Income from Swimming Pool, Sauna, Steam Bath and Sports facilities, say	= 20,000,000.00
	Sub-total	= 101,750,000.00
	<u>Less</u> Annual outgoings @ 20%	= 20,350,000.00
	Sub-total Annual Returns	=Kshs 81,400,000.00
(e)	<u>Add</u> Anticipated Annual Savings on training	40,000,000.00
	<u>Total Anticipated Annual Returns</u>	<u>121,400,000.00</u>

(D) Projected Annual Income for 10 years ('000) @ 12 1/2%

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Annual Income	121,400.00	136,580.00	153,652.50	176,859.06	194,466.45	218,774.75	246,121.59	276,886.79	311,497.64	350,434.85
Interest on Income at 15%	-	18,210.00	23,047.88	25,928.86	29,169.97	32,816.21	36,918.24	41,513.02	46,724.65	52,565.23
Income Plus Interest	121,400.00	154,790.00	176,700.38	198,789.92	223,636.42	251,590.96	283,039.83	318,419.81	358,222.29	403,000.08

3.00 Computation of Pay Back Period (Amounts in '000)

Years	Investment Outlay	Cash-in-Flows	Investment Balance
2006	-1,200,000.00		-1,200,000.00
2007		121,400.00	-1,078,600.00
2008		154,790.00	-923,810.00
2009		176,700.38	-747,109.62
2010		198,787.92	-548,321.70
2011		223,636.42	-324,685.28
2012		251,590.96	-73,094.32
2013		283,039.83	+209,945.51
2014		318,419.81	+528,365.32
2015		358,222.29	+886,587.61
	-1,200,000.00	2,086,587.61	

Pay back residual value in 7th year (2012) = -73,094.32

Pay back residual value 8th year (2013) = +209,945.51

Therefore, actual pay back period = 7 years + $\frac{73,094.32}{283,039.83}$

= 7 years and 3.10 months

4.00 Average Annual Rates of Return on Investment Outlay of Rs. 1,200,000,000/-

Years	Total Annual Rent Income	Rate of Return (%)	Cumulative Rate of Return
2006	121,400.00	8.00	8.00
2007	154,790.00	10.08	18.08
2008	176,700.38	11.51	29.59
2009	198,787.92	12.95	42.54
2010	223,636.42	14.57	57.11
2011	251,590.96	16.39	73.50
2012	283,039.83	18.40	91.90
2013	318,419.81	20.70	112.60
2014	358,222.29	23.34	135.94
2015	403,000.08	26.30	162.24
Totals	2,489,587.70	162.24	
Average		16.22	

Average Annual Rent Income = $\frac{2,489,587.70}{10}$

= 248,958.80

Therefore, average annual Rate of Return = $\frac{248,958.80}{1,200,000.00}$

= 20.70%

5.00 Internal Rate of Return (IRR)

(a) Computation of Net Present Values over 10 years

Years	Net Annual Income	12%	13%	14%	15%	17%	20%
2006	121,400.00	108,392.85	101,433.60				
2007	154,790.00	123,397.64	12,223.28				
2008	176,700.38	125,771.83	127,462.20				
2009	198,787.92	126,333.30	12,920.30				
2010	223,636.42	126,897.32	12,380.90				
2011	251,590.96	127,463.80	120,843.79				
2012	283,039.83	128,032.84	120,309.08				
2013	318,419.81	128,604.41	119,702.46				
2014	358,222.29	129,178.54	119,246.80				
2015	403,000.08	129,755.23	118,719.10				
Discounted Cash-in-flows <i>Less</i>		1,253,827.76	1,193,241.00				
Investment Outlay		1,200,000.00	1,200,000.00				
Net Present Values		53,827.76	6,758.49				

(b)

Calculation of Internal Rate of Return (IRR)

The internal rate of return will be computed as below:-

$$IRR = \frac{A + P \times (B - A)}{P + N}$$

Where: "A" is the (lower) rate of return with a positive NPV
 "B" " " (higher) " " " Negative NPV
 "P" " " amount of the positive NPV
 "N" " " Negative NPV

From section (a) above, $IRR = 12 + \frac{53,827.76 \times (13 - 12)}{53,827.76 + 6,758.49}$
 $= 12 + 0.89$
 $= 12.89\%$

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806



HF/C/960/10

REF NO. _____

Date _____ 20__

17 April 2002

ANNEXE 3

Friscan Construction Management
P.O. Box 26613
Nairobi

Dear Sir,

PROPOSED TRAINING AND RESOURCE CENTRE AT KAREN,
NAIROBI ON PLOT L.R. NO. 2. 24968/2 KAREN - NAIROBI.

ENGAGEMENT AS PROJECT MANAGER

I am pleased to inform you that you have been appointed Project Manager for the above works during the design and its entire construction period. In this connection you will be responsible for the overall planning, control and co-ordination of the project from inception to completion to meet our requirements and ensuring completion within scope, budget schedule and required quality standards.


You will also be required to familiarize yourself with the Government procedures with respect to Corporations in connection with construction works being carried out on behalf of the Government. Your Commission, being carried out under the direction of the Board of NHIF will be governed by these procedures and any such instructions or directives that may be issued from time to time.

The estimated construction cost of this project is one billion two and fifty million (Kshs. 1,250,000/-) and you will be expected not to exceed this cost without prior written authority from Fund.

Please inform us of your acceptance of the appointment. Will you please ~~indicate your acceptance of this Commission, indicating the name of the~~ manager in your firm who will be in-charge of this Project.

The Memorandum of Agreement on this engagement is being worked on and will be signed later.

Yours faithfully,


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

Cc: Permanent Secretary
Ministry of Health
Nairobi

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

HF/C/960/11

REF No. _____

Date _____ 19____



29 April 2002

Ujenzi Consultants
P O Box 50972
Nairobi

Dear Sir,

PROPOSED RESOURCE CENTRE ON PLOT L.R. NO. 2. 24968/2
KAREN - NAIROBI FOR NATIONAL HOSPITAL INSURANCE
FUND

We have pleasure in confirming your appointment as Consulting Quantity Surveyors for the above project, which is to commence soon for National Hospital Insurance Fund.

The terms of this commission shall comply with Cap 525 of the Laws of Kenya.


Your commission includes for all full Pre and Post Contract services as covered by the relevant clauses under the Act.

You will be notified of the other Project Consultants in due course.

You will be required to familiarize yourself with all Public/Government policies and procedures in connection with the work being carried out on behalf of a Public/Government body. Your commission being under direction and control of this Fund will be covered by these procedures and such instruction, directives or regulations that may be issued from time to time by the Government of Kenya or the Fund.

Please indicate your acceptance of this commission by return of post to the Chief Executive (NHIF) and confirm that you are in position to carry on with this work. Please forward the name of the Quantity surveyor in your firm who will be in charge of this project.

Yours faithfully



IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

Cc: Permanent Secretary
Ministry Of Health
Nairobi

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

HF/C/960/12

REF No. _____

Date _____ 19 ____



29 April 2002

Kaigutha and Partners
P O Box 51332
Nairobi

Dear Sir,

PROPOSED RESOURCE CENTRE ON PLOT L.R. NO. 2. 24968/2
KAREN - NAIROBI FOR NATIONAL HOSPITAL INSURANCE
FUND.

We have pleasure in confirming your appointment as Electrical Engineering Consultants for the above project, which is to commence soon for National Hospital Insurance Fund.

The terms of this commission shall comply with association of Consulting Engineers Conditions of Engagement and Cap 530 of the Laws of Kenya.

Your commission includes for all full Pre and Post Contract services as covered by the relevant clauses under the Act.

You will be notified of the other Project Consultants in due course.

You will be required to familiarize yourself with all Public/Government policies and procedures in connection with the work being carried out on behalf of a Public/Government body. Your commission being under direction and control of this Fund will be covered by these procedures and such instruction, directives or regulations that may be issued from time to time by the Government of Kenya or the Fund.

Please indicate your acceptance of this commission by return of post to the Chief Executive (NHIF) and confirm that you are in position to carry on with this work. Please forward the name of the Electrical Engineer in your firm who will be in charge of this project.

Yours faithfully


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

Cc.
Permanent Secretary
Ministry Of Health
Nairobi

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

REF NO. HF/C/960/15

Date _____ 20

22 May 2002

M/s Baseline Architects
P.O. Box 39928
Nairobi

Dear Sirs

**RE: RESOURCE AND RECREATION CENTRE ON L.R. NO.
2.24968/2 - KAREN**

The Management of the National Hospital Insurance Fund is pleased to commission you as Lead Consultants for the design and supervision to completion of our proposed training Centre on plot No. L.R. 2.24968/2 Karen, Nairobi.

In this respect, you are required to closely liaise with the Management of the Fund so as to: -


1. Evolve a comprehensive brief of the fund's requirements
2. Interpret and develop the brief into a scheme design
3. Develop the scheme into working drawings
4. Seek the necessary City Council approvals
5. Produce working drawings and bid documents
6. Supervise the project implementation to completion
7. Any other professional services that the Fund may require from you in respect to the above project.

You will liaise with M/s Two Design Architects of P.O. Box 89436, Mombasa, who have been appointed as the Interior Designers and Decorations Consultant to achieve the full documentation and implementation of the above project.

Your professional fees will be as per Cap 525 of the Laws of Kenya which governs the Terms and Conditions of engagement for Architects and Quantity Surveyors.

Other consultants will be appointed independently by the management of the Fund and you will be advised in due course.

Yours faithfully,


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

REF NO. HF/C/960/16



Date _____ 20__

22 May 2002

M/s Two Designs Architects
P.O Box 89436
Mombasa

Dear Sirs

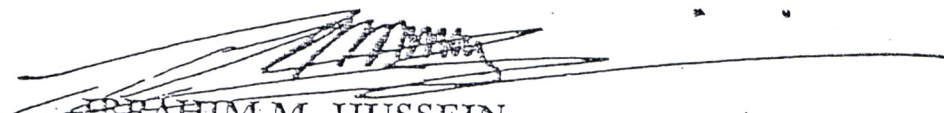
RE: RESOURCE AND RECREATION CENTRE ON L.R. NO.
2.24968/2 - KAREN

The Management of NHIF is pleased to commission you as the Interior Design Architects for the design, documentation and supervision of Interior works incorporating finishes, fittings, furniture, equipment and specialised services

You are required to liaise with the other Consultants already appointed for the main works on this Project.

Your Terms of Engagement will be as prescribed by the Laws of Kenya, Architects & Quantity Surveyors Act Cap 525.

Yours faithfully


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

When replying please quote

Ref: No. HF/C/960/19

and date

Ref: No.

19 August 2002

Mr. S.R. Manga & Associates
Consulting Engineers & Planners
P.O Box 28190,
Nairobi

RE: RESOURCE AND RECREATION CENTRE
L.R. NO. 2.24968/2 - KAREN


We are pleased to commission you as the Structural Engineering for the above project.

Your appointment shall be in accordance with Association of Consulting Engineers of Kenya (ACEK) conditions of engagement and scale of offices.

Please liaise with the Lead Consultant and Project Architect M/s Baseline for further briefing.

Please signify your acceptance of this commissioning by signing a duplicate copy of this letter and returning the same to us.

Yours faithfully


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

When replying please quote

Ref: No. HF/C/960/20
and date

Ref: No.

19 August 2002

M/s Professional Consultants
Consulting Engineers
P.O Box 45792
Nairobi

RE: RESOURCE AND RECREATION CENTRE
L.R. NO. 2.24968/2 - KAREN


We are pleased to commission you as the Civil, Geo-technical and Mechanical Engineering for the above project.

Your appointment shall be in accordance with Association of Consulting Engineers of Kenya (ACEK) conditions of engagement and scale of offices.

Please liaise with the Lead Consultant and Project Architect M/s Baseline for further briefing.

Please signify your acceptance of this commissioning by signing a duplicate copy of this letter and returning the same to us.

Yours faithfully


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F. BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 723255/6, Fax: 714806

REFNo. HF/C/960/21

Date _____ 20__

23rd August 2002

M/s Costwise Associates
P.O Box 1992
00100 GPO
Nairobi

Dear Sir,


RE: RESOURCE AND RECREATION CENTRE
L.R. NO. 2.24968/2 - KAREN

The Management of the National Hospital Insurance Fund is pleased to commission you as the Quantity Surveyors for the interior design work for the proposed Resource Centre at Karen, Nairobi.

Please liaise with M/s Two Design Architects who have been commissioned as the Project Managers. Baseline Architects have been commissioned as the Lead Consultants for the Project.

Your terms of engagement will be as stipulated in the Architects and Quantity Surveyor's Act, Chapter 525 of the Laws of Kenya.

Yours faithfully


IBRAHIM M. HUSSEIN
CHIEF EXECUTIVE

Cc: Friscan Management Ltd

Baseline Architects

Two Designs Architects

NATIONAL HOSPITAL INSURANCE FUND



NAIROBI HEAD OFFICE
N.S.S.F BUILDING
BLOCK "A" EASTERN WING
P.O. BOX 30443, NAIROBI
TEL: 2722255/6, Fax: 2714806
Email: info@nhif.or.ke

HF/C/919/VOL. XIV/104

21 November 2002

Professional Consultants
P O Box 45792
NAIROBI

Dear Sir

RE: PROPOSED RESOURCE CENTRE FOR NHIF ON PLOT LR NO.
24968/2 NAIROBI

Following our letter of appointment ref. HF/C/960/20 dated 9 August 2002 and your letter ref. PC/NHIF/JL/1088/2002 dated 18 November 2002, indicating the need for survey and site investigations.


I hereby ask you to carry out survey and geotechnical site investigation for the above site as required to facilitate proper planning design and documentation.

You are therefore instructed to carry out a study and prepare a report on the same to be ready on or before 21 January 2003.

Remuneration for the services will be as per professional charges currently in force and as per your terms of commission.

You may forward your proposal with respect to how you intend to carry out the study within the time frame, and the likely charges for our consideration and concurrence.

Thank you.


~~IBRAHIM M HUSSEIN~~
CHIEF EXECUTIVE

Copy to:

Friscan Construction Management

Baseline Architects

Two Design Architects

Ujenzi Consultants

Costwise Associates

Kaigutha & Partners

S.R. Manga & Associates



44

MINISTRY OF HEALTH

Telegrams: "MINHEALTH",
Nairobi
Telephone: Nairobi 717077
When replying please quote

OFFICE OF THE
PERMANENT SECRETARY
AFYA HOUSE
CATHEDRAL ROAD
P.O. Box 30016
NAIROBI

MISC/13/A/VOL.V

September 19, 2002

Ref. No. _____

ANNEXE 4


Mr. I.M. Hussein,
Chief Executive,
National Health Insurance Fund,
NSSF Building,
NAIROBI.



Dear

RE: ESTABLISHMENT OF A RESOURCE CENTRE

Enclosed herewith, please find a self-explanatory letter from the Permanent Secretary, Ministry of Finance on the above Resource Centre.

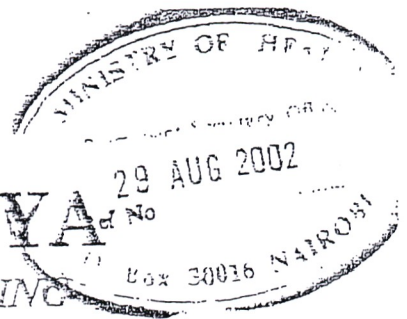

PROF. JULIUS S. MEME, EBS, FAAP
PERMANENT SECRETARY

Encl.

REPUBLIC OF KENYA

MINISTRY OF FINANCE AND PLANNING

Telegraphic Address : 22921
FINANCE-NAIROBI
FAX NO: 213475
Telephone: 338111
When replying please quote
Ref. No.



THE TREASURY

P. O. Box 30007

NAIROBI

20th August, 2002

Prof. Julius Meme, EBS, FAAP
Permanent Secretary
Ministry of Health
Afya House
NAIROBI

Dear Prof. Meme

RE: ESTABLISHMENT OF A RESOURCE CENTRE

As indicated to you in May, we reviewed the proposal by National Hospital Insurance Fund to establish a Resource Centre in Karen, Nairobi. We did not find adequate justification for the project and we are unable to provide the Treasury authority for NHIF to proceed with the project.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mwaghazi Mwachofi'.

MWAGHAZI MWACHOFI
PERMANENT SECRETARY/TREASURY

CONFIDENTIAL

MINISTRY OF MEDICAL SERVICES

95

ograms: "MINMEDSERVICES" Nairobi
phone: Nairobi 254- 20- 2717077
: 254- 20- 2719008
ail: minms@health.go.ke
en replying please quote



OFFICE OF THE MINISTER
AFYA HOUSE
CATHEDRAL ROAD
P. O. Box 30016 - 00100
NAIROBI

No. Conf. Misc/12/A/Vol. XIII/(58)
and date

11th June, 2008

ANNEXE 5

Mr. Richard L. Kerich
Chief Executive Officer
National Hospital Insurance Fund (NHIF)
P.O. Box 30443-00100
NAIROBI

Dear *Richard*



RE: PROPOSED RESOURCE CENTRE FOR NHIF ON PLOT NO. 24968/2
- KAREN, NAIROBI

I have gone through the correspondence and documentation on the above matter, and I would like to make the following observations:

1. Your project proposal dated March 2002 gives a detailed rationale for building the Centre which is sound. The investment shows that there would have been an IRR of 12.89% (not very impressive) within a payback period of 7 years, 3 months (which is laudable).
2. The Treasury, nonetheless, went ahead to refuse to grant permission for the project to go ahead on the ground that they "did not find adequate justification for the project." (Letter by P.S. dated 20th August, 2002). This letter refers to communication to you some time in May, 2002 which I have not seen; but I would presume that Treasury gave you much more detailed information on why they did not find "adequate justification" for the project.
3. The CEO seems to have proceeded to commission work on the project without two things:
 - (a) Approval of the Board
 - (b) Approval of the Treasury

CONFIDENTIAL

How this was done without the Board knowing is amazing. Nonetheless, it was a grave error.

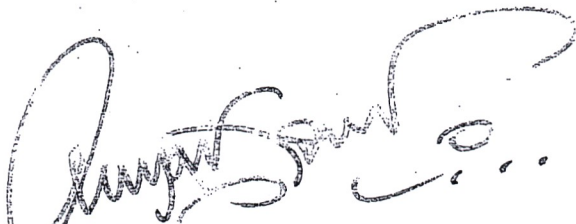
4. It is quite clear that the consultants were in no way at fault since their work on the project was based on instructions from the client, NHIF. To turn around, post facto, and seek to terminate the contracts on the basis of a mistake and/or oversight by the client himself is, to say the least, not very wise.
5. There are only two options open to the Board in my opinion:
 - (a) Stop the court litigation and pay the consultants as per the advice of the Attorney General and the Arbitrator's recommendation involving payment of Kshs. 352,131,345.15.
 - (b) Stop the court litigation and open up fresh discussions with the Prime Minister's Office and the Treasury with the view of completing the project. This would involve "re-thinking" of the project to cater for a variety of clients in the medical field. There is greater need for providing facilities for education in telemedicine, trauma centres, management skills in hospital administration, etc.

If we adopt this approach, we would save the "settlement money to be paid to clients" and we would stop money spent on lawyers pursuing a hopeless case in court while building a "state-of-the-art" resource centre that can contribute to "Vision 2030" within the medical services area.

6. Revenues earned subsequently must, however, be "ring-fenced" to support social health insurance for indigents.

I hope we can solve this problem creatively and not throw money about as if we have some limitless supply.

Yours



HON. (PROF.) P.A. NYONG'O, EGH, MP
MINISTER

CONFIDENTIAL

Cc: **The Rt. Hon. Raila A. Odinga, EGH, MP**
Prime Minister
P.O. Box 30007-00100
NAIROBI

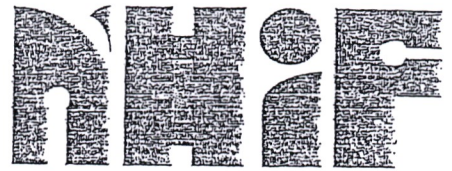
Hon. Amos Kimunya, EGH, MP,
Minister for Finance
P.O. Box 30007-00100
NAIROBI

Mr. Joseph K. Kinyua, CBS
Permanent Secretary
Ministry of Finance
P.O. Box 30007-00100
NAIROBI

Dr. Hezron Nyangito, CBS
Permanent Secretary
Ministry of Medical Services
P.O. Box 30016-00100
NAIROBI

Hon. Amos Wako, EGH, EBS, MP
Attorney General
P.O. Box 40112
NAIROBI

CONFIDENTIAL



NATIONAL HOSPITAL INSURANCE FUND
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

77

HF/C/944 VOL. V/(179)

16th July 2008

Hon. (Prof). P. A. Nyong'o, EGH, MP
Minister for Medical Services
Afya House
P. O Box 30016-00100
NAIROBI

ANNEXE C

Dear Sir,

RE: PROPOSED RESOURCE CENTRE FOR NHIF ON PLOT NO.24968/2
NAIROBI - KAREN

Reference is made to your letter Conf. MISC/12/A/VOL.XIII/(58) dated 11th June 2008 on the above captioned subject matter.

The letter was presented and discussed by the NHIF Full Board meetings held on 25th June 2008, 2nd July 2008 and 14th July 2008. The historical background and the Board's position on the matter is presented here below: -

Report

The Board during the Sixth Special Board Meeting held on 16th January 2002 approved the establishment of a Training/Recreational facility for the Fund under Minute S/27/2002 and tasked Management to initiate the process to be submitted to the Board for approval. APPENDIX 1 (Reference Pages 8-9 of the Minutes)

During the Twenty-Second Full Board Meeting held on 27th March 2002 the Board approved Kshs.95,000,000.00 for purchase of land for the Training/Recreational facility and a further Kshs.85,000,000.00 for the Proposed Resource Centre. This is covered under Minute B.442/2002. APPENDIX 2 (Reference Pages 5, 11, 20 and 24 of the Minutes)

CONFIDENTIAL

2002 stating that there was no justification for the Project and therefore did not grant the approval for the Project. APPENDIX 10

This letter was received on 20th September 2002. The then Chief Executive Officer had already commissioned the Consultants in April 2002 without the approvals of the Board and the Ministries of Health and Finance as required. The following Consultants were commissioned: APPENDIX 11

- | | | | |
|----|--------------------------------------|---|---------------------------------|
| 1. | Project Architects | - | Baseline Architects |
| 2. | Interior Designer | - | Two Design Architects |
| 3. | Project Quantity Surveyors | - | Ujenzi Consultants |
| 4. | Quantity Surveyors (Interior (Works) | - | Costwise Associates |
| 5. | Mechanical/Civil Engineers | - | Professional Consultants |
| 6. | Project Structural Engineers | - | S.R. Manga & Associates |
| 7. | Project Electrical Engineers | - | Kaigutha & Partners |
| 8. | Project Manager | - | Friscan Construction Management |

The Consultants Case

The Consultants through their Advocates Muriu Mungai & Co. Advocates and Muciimi Mbaka & Co. Advocates submitted demand for fees on the matter. The then Chief Executive Officer Dr. Mohammed Hassan who had taken over from Mr. Ibrahim Hussein referred the matter to the Board for directions, as he had no authority to pay in the absence of Board Minutes approving the Project. This was discussed during the Fortieth Full Board Meeting held on 21st June 2006.

The Board observed that the records indicate that it did not approve the Commissioning of Consultants on the Project. It also took note of the fact that the Board, Ministry of Health, Ministry of Finance as required did not authorize the Project. However, the then Chief Executive Officer had already commissioned the Project by appointing Consultants to carry out feasibility and design works.

The Consultants then commenced Arbitration proceedings against the Fund for the demand for fees.

The Board therefore resolved to defend its position under the Arbitration process.

Attorney General (Deputy Solicitor General)

Management sought the Attorney General's Opinion on the matter by letter Ref. HF/LD/74 VOL. II/(69) dated 29th May 2007 and the Deputy Solicitor General responded by letter reference AG/CIV/770/07 dated 18th July 2007 advising that the award may not be successfully challenged in Court on the basis that the procurement procedures were not followed. APPENDIX 13

The matter was discussed during the Special Full Board Meeting held on 20th August 2007 but the Board resolved that the matter proceeds in Court with a view to setting aside the Arbitration Award.

The Arbitrator in his Award failed to address the failure of the Chief Executive Officer to seek the approvals of the Board, Ministry of Health and the Ministry of Finance. In addition the Arbitrator based the Award on the sum of Kshs.2,675,588,131.00 as opposed to the sum of Kshs.1,250,000,000.00, which was contained in the disputed Chief Executive Officer's commissioning letter reference HF/C/960/10 dated 17th April 2002 to the Project Manager.

However, for purposes of trying an out of Court Settlement, Management was tasked to pursue without prejudice negotiations with the Consultants on the Award based on the figure of Ksh.1,250,000,000.00, which was quoted in the disputed Chief Executive Officer's commissioning letter to the Project Manager referred above.

This was discussed during the Forty Third Full Board Meeting held on 26th September 2007 and after deliberating on the options given the Board reiterated that the matter proceeds in Court. The matter is still pending in the High Court for determination.

Confidential Documents

The Consultants fraudulently obtained confidential documents relating to the above matters in support of their case, which was challenged by the Board, and the same were expunged by the Court from the records. The matter is a subject of investigations with the Commissioner of Police. (Reference Ruling of the Court) APPENDIX 14.

Advice from Lawyers

The Lawyers acting for the Fund have also advised that the case is meritorious and should therefore proceed in Court.

Cc: The Rt. Hon. Raila A. Odinga, EGH, MP,
Prime Minister
P. O. Box 30007-00100
NAIROBI

Hon. John Michuki, EGH, MP,
Ag. Minister for Finance
P. O. Box 30007-00100
NAIROBI

Mr. Joseph Kinyua, CBS
Permanent Secretary
Ministry of Finance
P. O. Box 30007-00100
NAIROBI

Dr. Hezron Nyangito, CBS
Permanent Secretary
Ministry of Medical Services
P. O. Box 30016-00100
NAIROBI

Hon. Amos Wako, EGH, EBS, MP
Attorney General
P. O. Box 40112
NAIROBI

CONFIDENTIAL

MINISTRY OF MEDICAL SERVICES

Telegrams: "MINMEDSERVICES" Nairobi
Telephone: Nairobi 254- 20- 2717077
Fax: 254- 20- 2719008
Email: minms@health.go.ke
When replying please quote



OFFICE OF THE MINISTER
AFYA HOUSE
CATHEDRAL ROAD
P. O. Box 30016 - 00100
NAIROBI

Ref No. MMS/ADM/1/16/I
and date

4th December, 2008

Mr. Richard L. Kerich
Chief Executive Officer
National Hospital Insurance Fund (NHIF)
P.O. Box 30443-00100
NAIROBI

Dear

Richard **ANNEXE 7**



RE: MEDICAL RESOURCE CENTER - KAREN

On 25th November, 2008 the Cabinet Committee on the Services Sector, at its fourth meeting, approved the Cabinet Memorandum on the NHIF Medical Resource Center and advised me to carry on with the project expeditiously.

I have previously written to you on the same advising on the way forward with the project which includes, inter alia:

- (i) Termination of the court processes as earlier advised by the Attorney General;
- (ii) Negotiation with the Service providers to agree on the reasonable professional fees to be paid in accordance with the work done and established law;
- (iii) Re-engineering the construction process in a proper way so as to avoid the problems that brought us where we are today.

The rationale for my recommendations assumes, as a basic principle, that the project shall be implemented in line with the vision and mission of the Ministry of Medical Services as well as that of the National Hospital Insurance Fund.

Yours sincerely,

HON. (PROF.) P.A. NYONG'O, EGH, MP
MINISTER



5

OFFICE OF THE PRIME MINISTER

Telegrams "OPM" Nairobi
Fax No.: +254-(0)20-2210876
Telephone: +254-(0)20-252299
When replying please quote

TREASURY BUILDING
P. O. BOX 74434-00200
NAIROBI
KENYA

Ref: OPM.1/INF/89/125

Date: 9th June, 2010

Mr. Richard Kerich
Chief Executive
National Hospital Insurance Fund
NHIF Building
NAIROBI



ANNEXE 8

Dear Mr. Kerich

RE: FUNDING OF PROPOSED KAREN NHIF MEDICAL CENTRE

The above subject refers.

The Project was discussed during a Consultative meeting between the Rt. Hon Prime Minister and China Development Bank Delegation led by the Governor Jiang Chaoling on 17th May 2010.

This project has been listed as a strategic health sector project to be financed through a line of Credit being sought from Development Bank of China in Partnership with Development Bank of Kenya.

The purpose of writing is to inform you to liaise with the Chief Executive Officer of Development Bank of Kenya for the prerequisite documentation and project appraisal to facilitate its implementation.

Yours sincerely

A.A.O. MONDOH OGW
Ag. PERMANENT SECRETARY

Cc Hon. Prof. Anyang' Nyong'o, EGH, MP
Minister for Medical Services
NAIROBI

C.S.
Pse lets
dis. cross.

21/6/10

- copy given to
C.S for action



MINISTRY OF MEDICAL SERVICES
OFFICE OF THE MINISTER

Telegrams: MINMEDSERVICES - Nairobi
Telephone: Nairobi 254-20-2717077
Fax: 254-20-2719008
Email: minms@health.go.ke
When replying please quote

Afya House
Cathedral Road
P.O. Box 30015-00100
NAIROBI

15th September, 2010

Ref No: EXT/367A

Mr. Richard Kerich
Chief Executive Officer
NHIF
NAIROBI

ANNEX 9



Dear *Richard*

SYNERGY INVESTMENTS LIMITED

Attached please find a letter from Synergy Investments Limited regarding the NHIF Karen Project.

I would be happy to receive URGENT advice from you on this.

Yours sincerely,

HON. (PROF) P.A. NYONG'O, EGH, MP
MINISTER

Copy to: The Permanent Secretary
Ministry of Medical Services
Afya House
NAIROBI

RECEIVED
SERVICES
Box 30016 - 00100
NAIROBI



SYNERGY INVESTMENTS



EXT/35/A

8th September 2010

The Minister of Medical Services
Hon. Prof. Peter Anyang Nyong'o
Afyu House, Cathedral Road
P.O. Box 30016
Nairobi, Kenya

RE: Karen Referral Hospital

Dear Sir,

Further to my previous discussions and my letter dated 5th August 2010, I am writing requesting an appointment for Fedders Lloyd Corporation to sign a Memorandum of Understanding (MoU) for the Karen Referral Hospital.

Discussions for this project have been on going for over one year now and our principals Fedders Lloyd are visiting the country to sign a MoU with the Ministry of Energy on October 14th 2010. While they are in the country, they would very much like to do the same with your Ministry for the abovementioned project.

It would be highly appreciated if an invitation letter similar to the one attached would be written giving them an appointment for a date close to that given by the Ministry of Energy.

I look forward to your positive and swift response.

Regards,

Robert Gichuru
Director

REPUBLIC OF KENYA
MINISTRY OF ENERGY

Telegrams: "MINPOWER, Nairobi
Telephone: Nairobi 310112
e-mail: ps@energymin.go.ke
Fax: 240910 or 228314
When replying please quote

OFFICE OF THE
PERMANENT SECRETARY
P. O. Box 30582
NAIROBI

Date: SEPTEMBER 3, 2010

Ref. No. ME/CONF/1/3/53

Mr. S. S. Dhawan

Director
Fedders Lloyd Corporation Ltd
159, Okhla Industrial Estate
Phase III
New Delhi-110 020
INDIA

Dear *Mr Dhawan*

RE: FEDDERS LLOYD CORPORATION LIMITED

Please refer to your letter dated May 29, 2010 on the above captioned subject.

This is to confirm my availability on October 14, 2010 at 8.30am in my Nyayo House Office to discuss potential power transmission and distribution projects including power supply materials for funding by the Government of India on concessionary terms. Such terms should reflect an IMF formula based grant element of at least 35% on net present value basis. These discussions will lead to the signing of a Memorandum of Understanding between the two parties.

Yours *Sincerely*

Patrick M. Nyong'o
Patrick M. Nyong'o, CBS
PERMANENT SECRETARY



19

OFFICE OF THE PRIME MINISTER
PERMANENT SECRETARY'S OFFICE

file

Fax No.: +254-(0)20-2210876
Telephone: +254-(0)20-3247000
When replying please quote

Prime Minister's Building
P. O. BOX 74434-00200
Harambee Avenue
NAIROBI

URGENT

Ref: OPM1/INF/89/162

Date: 29th March 2011

Ms. Mary Ngari, CBS
Permanent Secretary
Ministry of Medical Services
NAIROBI.

ANNEXE 10



Dear *Kevin*,

RE: BILATERAL TALKS ON KENYA – CHINA DEVELOPMENT CO-OPERATION

Reference is made to the above subject matter which took place on 18th March 2011 when H.E. Prime Minister held bilateral discussions with the Vice Premier of the Peoples Republic of China in the company of the Chairman of the Development Bank of China. As you may be aware, during these talks, Development Bank of Kenya submitted proposals on various projects which they wish to undertake in partnership with the Development Bank of China.

In particular, the proposed National Hospital Insurance Fund (NHIF) Specialised Medical Centre at Karen Project was forwarded to CDB for consideration.

The purpose of writing is to request you to facilitate timely implementation of this project. Please find attached a copy of the brief submitted to the China Development Bank for your action.

Yours

DR. MOHAMED ISAHAKIA, CBS
PERMANENT SECRETARY



CC:

Mr. Richard Kerich
Chief executive Officer
National Hospital Insurance Fund
NHIF House – Community Hill
NAIROBI.

Mr. Victor Kidiwa
Chief Executive
Development Bank of Kenya
NAIROBI

01 3x3 10



REPUBLIC OF KENYA

OFFICE OF THE PRIME MINISTER

EXECUTIVE BRIEF TO H.E. MR. CHEN YUAN, CHAIRMAN OF THE BOARD OF DIRECTORS OF CHINA DEVELOPMENT BANK ON DEVELOPMENT PACT BETWEEN DEVELOPMENT BANK OF KENYA AND CHINA DEVELOPMENT BANK

Development Bank of Kenya (DBK) is in a development co-operation pact with China Development Bank (CDB) in which DBK is the local counterpart. The development pact between DBK and CDB was started in 2007 when the first project was signed. Implementation started in 2008 and was completed in 2009. Currently, DBK has started negotiations with the CDB on the construction of the proposed NHIF Specialised Medical Centre at Karen. The details of the proposed project are contained below.

NHIF SPECIALISED MEDICAL CENTRE AT KAREN

The Ministry of Medical Services has aligned its strategic plan towards the realization of Vision 2030 and Millennium Development Goals. The vision envisages making Kenya a regional provider of choice for highly specialized health care services and opening Kenya to Medical tourism.

The opening up of the East African Region has presented unprecedented opportunity for Kenya to demonstrate its dominance in provision of affordable quality health care services in the region. Presently, there are only two referral hospitals, namely Kenyatta national Hospital and Moi Teaching and Referral Hospital that offer specialized medical and diagnostic treatment. However, various studies have shown that the two institutions will not cope with the current demands and more so the opening up of the region that has a population of about 180 million people.

It is evident that Kenyans spend a lot of money in procuring services from overseas hospitals. Most of these services are on common ailments that require renal transplant, heart surgery, cancer treatment etc which could be done locally if facilities were available. Furthermore, the country loses in foreign exchange as they go out to seek those services.

From the foregoing, the current Health Indicators such as life expectancy, Child mortality, the ratio of health workers to the population have shown unfavourable trends that are not acceptable standards. These parameters can only be reversed with deliberate decisions by Government and like minded partners that include the Private sector. The Government is working towards bridging the existing identified gaps through a multifaceted approach.

The National Hospital Insurance Fund (NHIF) is at an advanced stage in implementation of a Medical Resource Centre of Excellence, in Karen, that encompasses a specialized Medical and a Training facility for the region in collaboration with willing partner(s). This Centre will serve Kenya and the wider Eastern and Central Africa region in easing congestion that is currently witnessed in the two national referral hospitals.

The Centre will include, among others, the following:-

1. Management Staff Training College to train hospital administrators in medical

supplies (medicines and equipment), maintenance, human resource management and procurement, train clinical medical staff in continuous skill development in new technologies e.g. in laparoscopic surgery, telemedicine, laser techniques and act as a centre for launching new medical technologies and knowledge from around the world to the medical fraternity in Kenya.

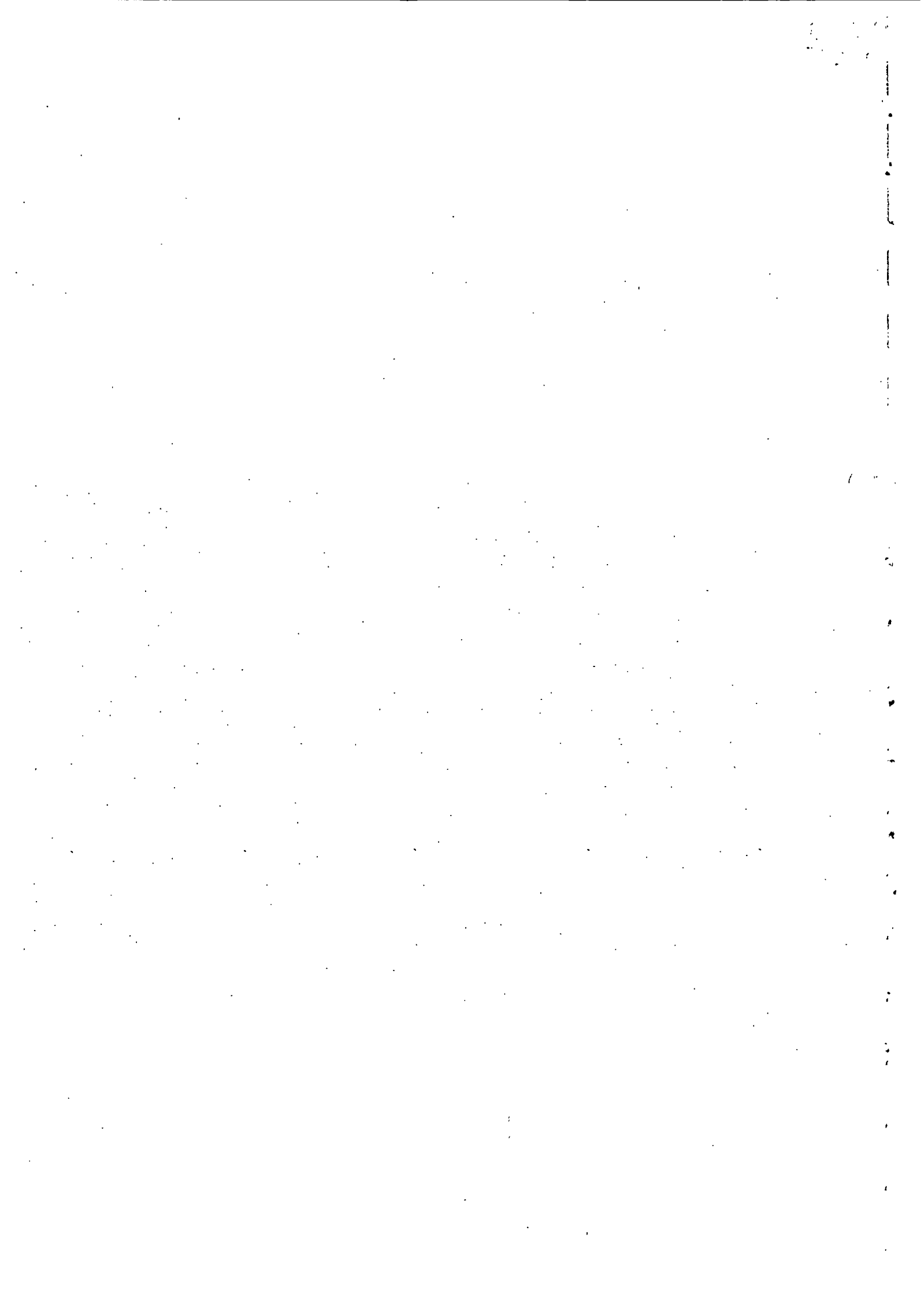
2. Specialized Referral Hospital fully equipped to deal with diagnostic and therapeutic Services in medical imaging, specialized laboratories, radio and chemotherapy, pathology and analytical diagnostic labs including gene and DNA mapping. The labs will be expected to give forensic research back-up to the crime fighting departments in Kenya and neighboring countries.

Specialized treatment area in the following areas:- renal services that will include dialysis and kidney transplant services, specialized cancer diagnosis, treatment and follow up, bone marrow transplants, cardiac, cardiothoracic open heart centre.

3. Accredited Level 1 Trauma Centre. This is the centre that will be able to handle complex emergencies particularly due to road and traffic injuries and other manmade and natural disasters. Specialized pediatric centre will cater for complicated pediatric disorders of acquired or genetic origin.
4. Modern environment- Friendly Medical Waste Disposal System that will be able to handle the waste in Nairobi Waste Facilities with ease and safety and reduce the risk of spread diseases from recklessly disposed hospital waste.
5. Other ancillary facilities and infrastructure development e.g. administration blocks, doctors' plaza, wards, staff, student and guest housing, kitchen, dining, stores etc.

The Medical Centre is estimated to Cost US \$ 120,000,000

DATED: 18th March, 2011





18

OFFICE OF THE PRIME MINISTER

PERMANENT SECRETARY'S OFFICE

Fax No.: +254-(0)20-2210876
Telephone: +254-(0)20-3247000
When replying please quote

Prime Minister's Building
P. O. BOX 74434-00200
Harambee Avenue
NAIROBI

ANNEXE II

Ref: OPM1/INF/89/165

Date: 28th March 2011

Mr. Richard Kerich
Chief executive Officer
National Hospital Insurance Fund
NHIF House – Community Hill
NAIROBI.



Handwritten signature and date: 3/3/11

Dear *Mr. Kerich,*

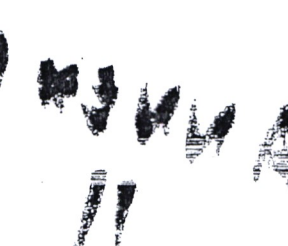
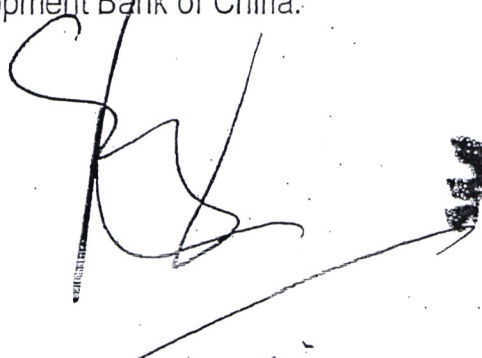
RE: BILATERAL TALKS ON KENYA – CHINA DEVELOPMENT CO-OPERATION

Reference is made to the above subject matter which took place on 18th March 2011 when H.E. Prime Minister held bilateral discussions with the Vice Premier of the Peoples Republic of China in the company of the Chairman of the Development Bank of China. During these talks, Development Bank of Kenya submitted proposals on various projects which they wish to undertake in partnership with the Development Bank of China.

In particular, the proposed National Hospital Insurance Fund (NHIF) Specialised Medical Centre at Karen Project was forwarded to CDB for consideration.

The purpose of writing is to request you to work together with the Development Bank of Kenya to progress the implementation of the project through financing by the Development Bank of China.

Yours



DR. MOHAMED ISAHAKIA, CBS
PERMANENT SECRETARY

CC: Mr. Victor Kidiwa
Chief Executive
Development Bank of Kenya
NAIROBI



MINISTRY OF MEDICAL SERVICES
OFFICE OF THE PERMANENT SECRETARY

Telegraphic Address: "MINMEDSERVICES" NAIROBI
Telephone: Nairobi +254-20-2717077
Fax: +254-20-2713224
When Replying please quote

AFYA HOUSE
CATHEDRAL ROAD
P. O. Box 30016 00100
NAIROBI

Ref. No. MMS/ADM/1/16 Vol.IV(118)
and date

7th April 2010

ANNEXE
12

Mr. Richard Kerich
Chief Executive Officer
National Hospital Insurance Fund
Nairobi

RE: KAREN MEDICAL CENTRE - BILATERAL TALKS ON KENYA/CHINA
DEVELOPMENT COOPERATION


We wish to inform you that the Government has held discussions with the Government of China on how to take forward the implementation of Karen Medical Centre. At the meeting held on 18th March 2011, between the Rt. Hon. Prime Minister of Kenya and the Vice Premier of the Government of the People's Republic of China and also attended by the Chairman of the Development Bank of China and the Chief Executive Officer of the Development Bank of Kenya, there was commitment that the project will receive financial support.

Consequently, the Ministry has tasked a team of Medical specialists to provide input into the earlier proposal on the project to be submitted to the lead Consultants.

I would also like to bring to your attention that this was identified as a flagship project of the Health Sector in Vision 2030. You are therefore requested to move this process as expeditiously as possible and in abiding by the relevant government regulations governing projects of this nature.

The purpose of this letter is not only to secure your (NHIF) Board commitment and concurrence as the lead agency under this partnership but also to proceed and bring on board all the relevant parties involved in this project to take it to the next level.

Ngari M.W. (Ms), CBS
PERMANENT SECRETARY

Copy to: Hon. Minister 

2000
15

26



NATIONAL HOSPITAL INSURANCE FUND
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

HF/C/969 VOL.II/26

April 21, 2011

Baseline Architects Ltd
P.O.Box 39928-00623
NAIROBI.

ANNEXE 13

Dear Sir,

RE: CONSTRUCTION OF THE PROPOSED SPECIALISED MEDICAL CENTRE OF EXCELLENCE AT KAREN LR.NO.24968/2

The Kenya Vision 2030 intends to make Kenya the regional provider of choice for highly-specialized health care, thus opening up "health tourism" as an income-generating activity.

In this regard, the Government has identified the above mentioned project as a flagship project for the Health Sector in Vision 2030.

The Fund instructs you to liaise with all relevant consultants and bodies to prepare detailed business proposal and implementation documents to reflect the current scenario.

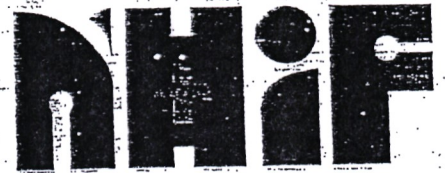
Treat the matter with urgency.

Yours faithfully,

R.L. KERICH
CHIEF EXECUTIVE OFFICER

THE END

85



NATIONAL HOSPITAL INSURANCE FUND
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

HF/C/969/ VOL.II/85

6th February 2012

Baseline Architects Ltd,
P.O. Box 39928,
NAIROBI.

ANNEXE 14

Dear Sirs,

RE: PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE.

Tender Action.

Reference is made to the following:-

- a) Letter ref. HF/C/969VOL.11/26 dated 21st April 2011 instructing you to prepare a business plan.
- b) Letter ref. NHIF/MED/1108/01.bsl dated 24th August 2011 forwarding documents referred to in (a) above.
- c) Advertisement for Expression of Interest (EOI) dated 7th November 2011.

The process of evaluation following (c) above has been completed. You are hereby instructed to liaise with the rest of the service providers to finalize and forward tender documents and bills of quantities, not later than 20th February 2012, for further action.

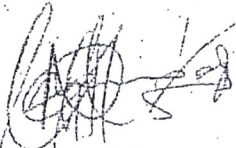
The tender documents should be comprehensive enough to address all the project components envisaged under Build, Operate and Transfer (BOT) arrangements as per the advertisement referred to above. This should include but not limited to the following:-

- a) Bills of quantities and sets of drawings and schedules for procuring contractor(s) competitively and qualitatively.

- b) Ditto for specialists' services including hospital equipment and supply items.
- c) Tender documents for full operationalization prior to transfer of the entire facility to the proponent(s).
- d) Ditto for technology transfer and capacity building prior, during and after operationalization period in (c) above.
- e) Ditto for finance and financing arrangements.

You are advised to liaise with the undersigned for any further clarifications. The final set of documents to be submitted shall be at least seven (7) copies of each and not later than 25th February 2012.

Yours faithfully,

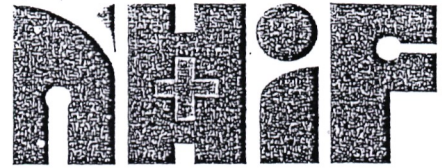


R.L. Kerich
Chief Executive Officer
NHIF.

Copy to :

Project Manager,
Costwise Associates.

Handwritten text at the top of the page.



NATIONAL HOSPITAL INSURANCE FUND
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

HF/C/969 VOL.II/86

The Permanent Secretary
Ministry of Finance
P.O. Box 30007
NAIROBI.

20th January 2012

ANNEXE IS

Dear Sir,

Re: Approval of Project Concept and Feasibility Study for Karen Medical Centre and Institute

This is a follow-up of the communication to you by the Permanent Secretary Ministry of Medical Services in respect to the above Project vide letter Ref. MMS/ADM/1/16/VOL 11/ (117) dated 7th April 2011.

The purpose of this communication is to submit the background concept paper and the Feasibility Study report for the Karen Medical Centre and Institute in compliance with Legal Notice No. 38 of 2009.

Steps 1 and 2 of the Public Procurement & Disposal (Public Private Partnerships) Regulations 2009 (PPP Preparation and Approval), related to the identification and feasibility analysis were carried-out and completed over a period of time as summarized below.

In respect to steps 1 and 2, the Project was envisaged as a Healthcare Resource Centre in 2001 to be established by NHIF in collaboration with hospitals accredited to the Fund to support delivery of specialized medical services and capacity building. It was scaled-up to a Medical Centre and Institute in 2006 with a view to;

1. Support hospitals accredited countrywide,
2. Address Health Sector challenges outlined in the Economic Recovery Strategy (ERS),
3. Expand access to quality health services and,
4. Support implementation of strategies necessary to reverse declining trends in health indicators.

This was identified as a Strategic Health Sector Project and included in the Kenya Vision 2030 as the flagship project for the health sector in June 2010 with a view to establishing a Medical Centre of Excellence in line with 1994-2010 Health Sector

Policy Frameworks, Health Sector Strategic Plans 2000-2004 and 2005-2010, and Vision 2030.

Accordingly, the Medical centre was re-designed to specialize on pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, specialized surgery, physiotherapy and day care Centre. It also included medical and pharmaceutical production unit, medical education institute, administration offices and support facilities.

Feasibility Study, update of the designs and business plan were carried out between May and November 2011. The feasibility study included assessment of the demand, nature and levels of medical services to be provided, target segment of the population, the scope and the level of infrastructure to be developed, preliminary estimates of the capital investments and expected revenue.

The Feasibility study recommended a model medical institution that consists of :

1. The Referral Centre,
2. The Medical Production Centre,
3. The Medical Education Centre (Institute), and
4. Administration Offices and support facilities.

With the experience of local and international best practice models, it was recommended that the Centre will operate based on quality and competitive services at economic rate in order to maintain sustainability and the capability for improvements over the years in all areas of service delivery.

In addition, the feasibility study indicated that the total project costs will be US\$ 267 million; covering all the components that include the cost of land and maintenance, consultancies, project management, construction, equipment, furniture, furnishings, and the cost of finances. The feasibility study indicated further that annual income of US \$ 39 million will be expected at the completion of the construction and necessary capacity building.

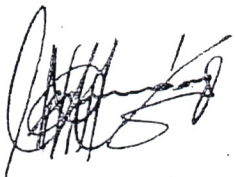
Various consultations have been carried-out in respect to possible sources of funds for construction, equipping the Centre and carrying-out necessary capacity building. In view of these consultations, the Government recommended that mechanisms be put in place to secure funding from the development co-operation pact of China Development Bank (CBK) and Development Bank of Kenya (DBK). Accordingly, the primary concern is to identify construction agencies that will be able to access such line of credit at competitive rates for Build Operate and Transfer at a reasonable period.

For the purpose of the steps 3, 4 and 5 of the PPP Regulations; namely submission of the project concept and feasibility report, consideration by the Steering Committee

and submission of a Joint Cabinet Memorandum to the Cabinet, we attach to this letter the Project Background and the Report of the Feasibility Study for your consideration and approval.

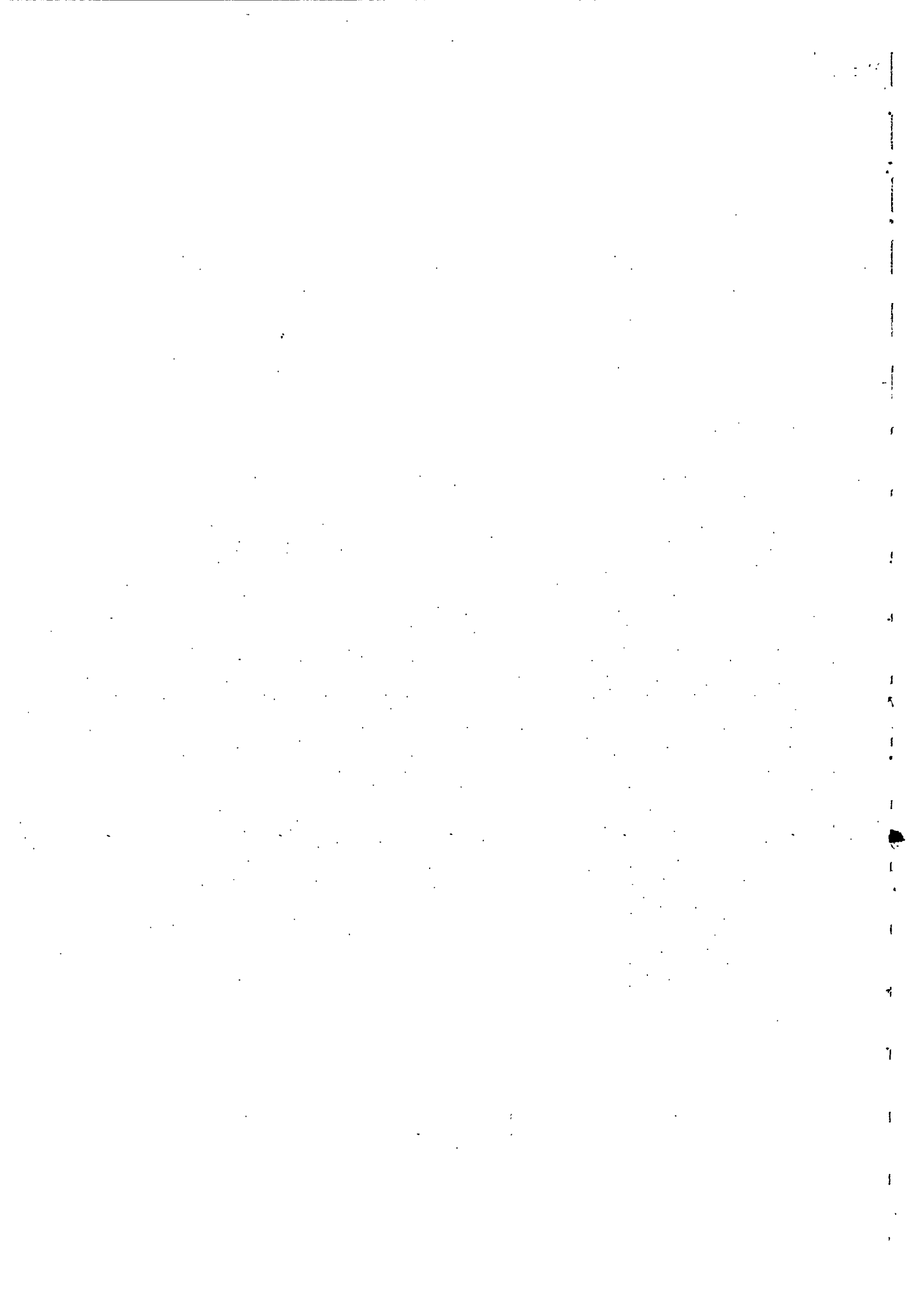
The Fund will be prepared to provide any additional information that may be required for the purpose of addressing this Project expeditiously.

Yours faithfully,



Richard L. Kerich
Chief Executive Officer

cc. The Permanent Secretary
Ministry of Medical Services
P.O.Box 30016
Nairobi.



99



NATIONAL HOSPITAL INSURANCE FUND
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

HF/C/969 Vol.II/99

April 17, 2012

The Director
Public Private Partnership
Ministry of Finance
P.O. Box 30007-00100
NAIROBI.

Dear Sir,

RE: PROPOSED KAREN MEDICAL CENTRE AND INSTITUTE

This is further to the communication Ref.HF/C/969 Vol.II/86 dated 20th January 2012 and the Meeting held on 17/4/2012 in your Office.

Accordingly, attached is the copy of the communication on 20th January 2012 with relevant annexes that include the letter from Permanent Secretary, Ministry of Medical Services, copy of the feasibility study and the business plan that were commissioned by the Board.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'R.L. Kerich', is written over a horizontal line. The signature is stylized and somewhat cursive.

R.L.KERICH
CHIEF EXECUTIVE OFFICER

Attd.

00

ANNEX 1
NATIONAL HOSPITAL INSURANCE FUND

PROJECT BACKGROUND AND CONCEPT
PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

1. PREAMBLE

The Medical Centre of Excellence was proposed initially in 2001 as Healthcare Resource Centre to be established by the National Hospital Insurance Fund (NHIF) in collaboration with strategic hospitals accredited to the Fund with a view to support delivery of essential medical services, medical education and capacity building for various professionals in the health sector.

More specifically, KMCI was initiated in response to challenges experienced by members of NHIF and the hospitals accredited to NHIF that included limited access to quality medical services, scope of the facilities and services that have persisted in the health sector.

In 2006, it was scaled-up to a Medical Centre and Institute with a view to 1) support hospitals accredited countrywide 2) address health sector challenges in outlined in the Economic Recovery Strategy (ERS) 3) expand access to quality health services and 4) to support implementation of strategies necessary to reverse declining trends in health indicators.

It was identified as Strategic Health Sector Project and included in the Kenya Vision 2030 as the flagship project for the health sector in June 2010 with a view to establish a Medical Centre of Excellence in line with 1994-2010 Health Sector Policy Framework, Health Sector Strategic Plans 2000-2004 and 2005-2010, and Vision 2030.

The Centre is located in Karen, about 17 Km from the Nairobi CBD, on approximately 10 hectares piece of land owned by NHIF. In view of the foregoing, it has been designed to consist of (1) The Referral Centre (2) The Medical Production Centre and (3) The Medical Education Centre (Institute), and (4) Administration Offices and support facilities. These facilities will occupy approximately 155,000 square metres.

2. KAREN MEDICAL CENTRE AND INSTITUTE

As indicated, the Healthcare Resource Centre was scaled-up to a Medical Centre in 2006 in order to address ERS and the need for the Fund to support expanded access to healthcare and strategies to reverse declining trends in health indicators. In the year 2010/2011, the Medical Centre was included in The Kenya Vision 2030 as one of the flagship projects in the health sector with a view to establish a third referral hospital and a model centre of excellence in Kenya.

With these developments, it was proposed that the medical centre should be re-designed to specialize on pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, specialized surgery, physiotherapy and day care Centre

It was considered also that the Institute will give priority and even high attention to expanded development and production of nurses, clinical officers and doctors as part of the efforts to address acute and persistent shortage of these cadres of the medical personnel.

In addition, it was considered that the Institute will give equal priority and attention to expanded skills and competencies of the health/medical administration, accounting and financial management with a view to address a wide range of challenges related to administration and financial management in medical institutions.

3. THE NEED AND THE RATIONALE

As indicated, NHIF and accredited strategic hospitals proposed to establish a model specialized medical centre and institute as part of the effort to address challenges related to increased and diversified diseases, policy directions, limited and inadequately maintained medical facilities, inadequate and inconsistent supply of drugs, and limited supply of qualified human resource,

The envisaged model centre is intended to serve as a teaching and referral hospital and to support at least levels 5 and 4 of the medical delivery institutions in Kenya thereby complementing the capacity and the efforts of the present referral medical institutions in Kenya; Kenyatta National Hospital (KNH) and Moi Teaching and Referral Hospital (MTRH).

Indeed, available reports (Strategic Plan, Ministry of Medical Services 2008–2012; The Review of the KHPF 2010; and Health Sector Strategic plan II 2005-2010) indicate that the existing medical facilities that include two referral hospitals (KNH and MTRH), provincial and district hospitals continue to be overstretched and characterized by limited human resources at various cadres.

Virtually, all the reports acknowledged that from 1993, the country witnessed reversal of the gains that were witnessed between 1960s and 1992. The infant rates increased from 51 in 1992 to 77 in 2003 and under-five mortality rates increased from 74 to 115 over the same period. Life expectancy declined from 60 years in 1993 to less than 50 in 2003. These trends applied to practically all the health indicators.

The reported reversal of the progress and continued decline of the health outcomes has been attributed to a number of factors that include congestion and limited access to the medical facilities, limited and inadequately maintained infrastructure, eroded level of medical services provided, lack of adequately trained medical and administration personnel, limited budget allocations to the health sector, increased poverty, adoption of the user fee and increasing emergence of new disease challenges including HIV/AIDS (KIPPRA 2004, Strategic Plan, Ministry of Medical Services 2008–2012; The Review of the KHPF 2010; and Health Sector Strategic plan II 2005-2010).

Besides increased and diversified diseases, limited and inadequately maintained infrastructure, persistent shortage of health/medical personnel has been described as "the crisis in human resources for health" in most of the sub-Saharan African countries (WHO 2006a p.11). Indeed, the HRH crisis in Kenya has become a major challenge for health service delivery and for achieving the health-related Millennium Development Goals (NHSSP I 2000-2004; NHSSP II-2005-2010).

With the WHO threshold index of 2.5 health workers per 1,000 population; and countries with lower indices defined as being in critical shortage of HRH (WHO 2006a). Kenya is one of the 57 countries with acute shortage of manpower of which 36 are in the sub-Saharan Africa (SSA) and experience a shortage of over 2.4 million health workers.

Most of the medical facilities accredited to the National Hospital Insurance Fund (NHIF) have expressed this crisis persistently leading to the proposed establishment of the Karen Medical Centre and Institute.

In addition, series of structural adjustment witnessed between 1990s and 2010 have continued to increase the levels of shortages on various cadres of health/medical personnel. The 1st National Health Sector Strategic Plan of the KHPF (NHSSP I, 2000-2004) emphasized the decentralization of the health/medical services resulting to more acute shortages of qualified personnel.

Between 1988 and 2000, Districts increased from 41 to 71 and precipitated establishment of 30 new. In 2009 the Administrative Districts increased again to 149 leading to establishment of additional 78 district hospitals in the new districts; resulting to 108 district hospitals most of which continue to experience varied challenges including shortage trained personnel, relevant equipment, infrastructure and supply of drugs

Further, 360 new dispensaries were opened in 2007/08 financial year and 389 in 2008/09 resulting to additional total of 749 dispensaries established under Constituency Development Fund (CDF) within a period of two years without corresponding increase on the qualified

human resources. The shortages of qualified staff increased drastically with the demand for nursing staff increasing by 2,996 within those two years.

With these structural changes, the additional demand for nurses has been estimated, by various reports, to be between 12,000 and 15,000 nurses in the next five to ten years.

Furthermore, the new community health initiative through KEPH has led to the creation of positions for Divisional Health Officers and Community Health Extension Workers (CHEWs) that has generated demand for 15,200 additional nurses as CHEWs and 1,200 as divisional nursing officers, resulting to 16,400 new nursing positions for community-based health care.

Karen Medical Centre and Institute have been designed with a view to address these challenges, to provide specialized services related to pediatrics; reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, surgery and physiotherapy; and to expand the production of trained personnel in these and related areas.

More importantly, it will also address the concerns of the over 500 accredited medical institutions on aspects related to human resource development. It will give priority and high attention to expanded development and production of nurses, clinical officers and doctors as part of the efforts to address acute and persistent shortage of these cadres of the medical personnel.

It will also give equal priority and attention to expanded skills and competencies of the health/medical administration, accounting and financial management with a view to address a wide range of challenges related to administration and financial management in medical institutions.

ANNEX 2
NATIONAL HOSPITAL INSURANCE FUND

FEASIBILITY STUDY, UPDATE OF THE DESIGNS AND BUSINESS PLAN
PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

1. FEASIBILITY STUDY AND UPDATE OF THE DESIGNS

The feasibility study, update of the designs and the business plan were carried-out between May and August 2011.

The feasibility study included assessment of the demand, nature and levels of medical services to be provided, target segment of the population, the scope and the level of infrastructure to be developed, projection of the capital investments and expected revenue.

A survey was carried-out with 75 hospitals accredited to NHIF with a view to identify their constraints, challenges and ways in which Karen Medical Centre can support their operations. The hospitals that were visited and/or interviewed included Kenyatta National Hospital (KNH), Moi Teaching and Referral Hospital (MTRH), Provincial Hospitals, Nairobi Hospital, Aga Khan University Hospital, Pandya Hospital, Machakos District Hospital, Kilifi District Hospital and Diani Beach Hospital.

A number of constraints, challenges, and ways in which Karen Medical Centre can support the operations of the hospitals accredited NHIF and the general hospitals in Kenya were identified through the survey. The resulting experiences and challenges were subsequently used to refine and update the designs.

The best practice medical schools were considered for the purpose of benchmarking, improved design and updating, exchange of experiences, exchange of programmes and accreditation. Among the international model institutions that were considered include McGill School of Medicine and Johns Hopkins School of Medicine. Local institutions that included the School of Medicine (Moi University), Moi Teaching and Referral Hospital (MTRH), Aga Khan University Hospital, Strathmore University, Kenya Medical Training College (KMITC) were considered and visited with a view to establish possible collaboration network.

In addition, attention was given to Kenya Polytechnic University College and Mombasa Polytechnic University College because of various training programmes in medical sciences, medical technology and pharmaceutical technology and management.

2. COLLABORATION NETWORK

The consultations and visits that were made led to expressed willingness for extended collaboration network. Among the institutions that expressed willingness for collaboration network include School of Medicine (Moi University), Moi Teaching and Referral Hospital (MTRH), Strathmore University, Kenya Polytechnic University College and Kenya Medical Training College (KMITC).

The services that can be commenced with institutional collaboration framework include

1.	Extended NHIF Membership education The primary objective will be to carry-out civic education and sensitization of the public on the importance and scope of NHIF services. MTRH has demonstrated that patients with NHIF membership have much less problem in securing medical services at the institution. Large proportion of the population have limited and/or no knowledge of NHIF.
2.	Improved skills and Competencies for various cadres of the Hospital Administration. Available data indicate that administration of the medical facilities continue to be a major challenge.
3.	Improved skills and Competencies for various cadres of the Hospital Financial Management. Similarly, available data indicate that administration of the medical facilities continue to be a major challenge.
4.	Adequate space and integration for the Radiology. It is spread-out with limited space. It needs to be consolidated and functionalities integrated with adequate space. Such measure will facilitate e-medical technology and efficiency in the delivery of medical services.
5.	Enhanced capacity for the Radiology Department by adding a 32 slice CT Scan and MRI equipment.
6.	Adequate space, location and integration for the Laboratories Department. The present location is limited and not appropriate for the Department and particularly the Blood Transfusion Unit. In particular, the Blood Transfusion Unit should be modernized and expanded to address the needs for the Referral Hospital and Western Satellite Medical Institutions.
7.	Progressive Expansion of ICU and HDU. At present, these facilities are substantially small for the MTRH.

	the region and population. ICU needs to be expanded progressively to at least 30 and HDU needs to be expanded from 6 to at least 20 beds.
8.	Provision of adequate incubators for pre-term babies in tandem with increased population

3. UPDATE OF THE DESIGNS

Based on the feasibility study and further consultations, the designs completed in 2006 were updated to incorporate the wider vision, scope and functionalities demanded by the hospital accredited to NHIF and prevailing industry standards.

The medical centre was re-designed to specialize on pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, specialized surgery, physiotherapy and day care Centre. It include medical and pharmaceutical production unit.

It was also designed to include extended the medical education centre with lecture theatres, seminars rooms and library and hostel facilities.

4. COMMERCIAL AND COMPETITIVE SERVICES MODEL

With the experience of local and international best practice models, it was concluded and recommended that the Centre will operate based on quality and competitive services at economic rate in order to maintain sustainability and the capability for improvements over the years in all areas of service delivery.

The centre and its operations will be structured in ways promote responsiveness to the population dynamics; trends in disease patterns, technology progress, economic conditions and market forces and maintaining at minimum most of the challenges that have had negative impact on the quality and competitive services at economic rate in the existing medical institutions.

5. GOVERNANCE, ADMINISTRATION AND ORGANIZATION

It will be noted that there are various ways to incorporate medical institutions. KNH was established with Legal Notice 109 1987, MTRH Legal Notice 78 1998 and KMTC Legal Notice 14 1994. Nairobi Hospital, Pandya Hospital, MP Shah Hospital and Aga Khan Hospital were incorporated as league of associations.

One of the best and viable models is the Open University Malaysia (OUM) that remains partial public institution owned by a consortium of 11 public universities in Malaysia that leverages the quality, prestige and capabilities

In keeping with the best practice models, it is recommended that the Karen Medical Centre and Institute (KMCI) be incorporated as league of association consisting of NHIF, accredited hospitals and best practice medical schools:

In that incorporation, a Board of Trustee will be established consisting of NHIF, strategic hospitals, medical schools, and Leading Medical Manufacturers.

It is envisaged and recommended further that administration will be provided by the Director General, Directors, Deputy Directors, Registrars and Coordinators. The organization of professionals will consist of lecturers, doctors, clinical officers, nurses, various pharmaceutical staff and support staff

6. IMPLEMENTATION PLAN

The design provided and envisaged 5 years of construction and capacity building, from 2012, 5 years of the grace period and 20 years of the capital repayment period.

Accordingly, the implementation in the 1st 5 years will involve construction, equipping the centre with relevant medical and learning technologies, and development of necessary capacity building that will include collaboration network, human resource development and initial services.

In conformity with standard procedure for such projects, the 2nd set of 5 years are provided for the grace period, improved delivery of services, enhancement of the operational capacity and consolidation of the various revenue streams.

It is expected and recommended that after the 10 years period the institution should be in a position to sustain the delivery of services and at the same time repay the capital investment obtained from the various sources. Indeed, the repayment of the capital investment is expected to commence at the beginning of the 11th year, i.e. 2022/2023.

The summary of the construction period, grace period, and loan repayment period in years

Component	Construction 2012-2016					Grace Period 2018-2022					Loan Repayment Period 2023-2042											
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	41/42
1. Medical Centre	█	█	█	█	█																	
2. Medical Education	█	█	█	█	█																	
3. Administration	█	█	█	█	█																	
4. Production	█	█	█	█	█																	
5. Collaboration /Personnel Dev	█	█	█	█	█																	
6. Medical Equipment						█	█	█	█	█												
1. Medical Centre							█	█	█	█	█											
2. Medical Education							█	█	█	█	█											
3. Administration							█	█	█	█	█											
4. Production							█	█	█	█	█											
5. Collaboration /Personnel Dev							█	█	█	█	█											
6. Medical Equipment							█	█	█	█	█											
7. Loan Repayment												█	█	█	█	█	█	█	█	█	█	█

Construction will be the major component to be addressed and will be divided into four (4) blocks to be constructed simultaneously in order to meet the target of four (4) years and additional one year for quality assurance and control.

It was envisaged further that the capacity building will be commenced in small scale even prior to the construction and sustained at expanded rate throughout the construction period in ways that facilitate commencement of full operations in January 2017.

Accordingly, it is expected that the grace period between 2017 and 2021 will witness full operation of the various components of the Karen Medical Centre and Institute.

7. SOCIAL ECONOMIC BENEFITS

It will be recall that the core benefits will include established Medical Centre and Institute that will support specialized medical services, medical and pharmaceutical production, and medical education for various the cadres of manpower in the health/medical sectors.

Over and above the core benefits, the institution will constitute a modern medical facility, infrastructure and a developed property estimated at over US\$ 300 million at completion of the project. It is also estimated that at the end of the twenty (20 years) period, the property value

will be in excess of US \$ 700 million and expected to have incremental value over the next 100 years of predicted economic lifespan.

In addition, it will have other secondary benefits that will include expanded employment opportunities, technology transfer, a wide range of backward and forward linkages and additional ancillary facilities

8. THE OVERALL PROJECT COSTS AND CAPITAL INVESTMENT

The reviews carried-out indicate that total project estimates is US\$ 267 million; covering all the components that include the cost of land and maintenance, consultancies, project management, construction, equipment, furniture, furnishings, and the cost of finances

9. THE OVERALL PROJECT RETURNS AND VIABILITY

It was recommended that the Centre will operate based on quality and competitive services at economic rate.

It was also recommended that capacity building measures be carried-out alongside the construction in order to bring the project to substantial operational levels at the completion of the construction. Accordingly, it is expected that the facility will operate at an average capacity of seventy (70%) per annum at the commencement of the operations.

Based on the various services to be provided at the completion of the construction and related assumptions, the projected annual income in the first year of operation will be US \$ 39 million before taxation and after addressing all annual outgoings and operational costs.

Based on various reviews, available data and projections, the annual outgoings and operational costs will be approximately 75% of the gross revenues. The initial returns will be expected by the 7th year of the project implementation.

10. PROJECT FUNDING MODEL

Based on various reviews and projects, it is recommended that eight percent (80%) of the project costs be secured through external borrowing at the interest rate 5% per annum. The balance of twenty percent (20%) should be sourced locally at prevailing commercial lending rates.

Indeed, because part of the local component has been carried-out amounting to over US\$ 17,931,981.49 (KES 1,380,762,574.96) or about 07% of the estimated project costs, it will even be more prudent to consider 70% external borrowing and 30% local mobilization of resources.

Accordingly, the external borrowing will need to be directed primarily to construction, expansion, supply of medical equipment, development of staff and service delivery (capacity building).

11. THE CONSTRUCTION AND GRACE PERIOD

It was recommended that the grace period for the project will be five (5) years after the construction and installation of operational equipments in conformity with standard procedure for such projects.

As indicated the 5 years construction period and the 5 years grace period is expected to enable the facility to consolidate the various revenue streams to achieve viable threshold. The surpluses that may be realized during the grace period and/or the loan repayment period will be invested on income earning account in which the proceeds can be used to improve and/or

expand the facilities and also to cushion the institution against possible financial and economic downturns

12. THE CAPITAL INVESTMENT AND LOAN REPAYMENT

As indicated in the project plan, the repayment of the capital investment is expected to commence at the beginning of the 11th year, i.e. 2022/2023 and continue for a period of twenty (20) years. Projections carried-out indicate that the facility will expect and/or realize an income growth of over 5% per annum over the loan period.

Loan repayment schedule: Loan Amount Kshs 23,577,748,044.90 (including the costs for land, construction and finance). Additional 10-15% contingency will need to be considered to support particularly the collaboration network/infrastructure.

13. CASH FLOW, NET PRESENT VALUE AND INTERNAL RATE OF RETURN

The cash flow and the net present value from the various income streams indicate the break-even point to be between 18% and 19% of the rate of interest. The Internal rate return (IRR) was determined to be 18.23%.

The average annual rates of return (profitability) over the period of twenty years will be 24.21%.

14. VIABILITY AND SUSTAINABILITY

Based on the above observations, it is concluded that the project is viable and sustainable as designed with recommended implementation framework.

15. RECOMMENDATIONS AND WAY FORWARD

1. Medical Centres and Institutes of Excellence

It was noted that various medical centres of excellence have been initiated by various institutions including the Aga Khan University Hospital and MP Shah Hospital. It was noted also that Moi University and MTRH have made plans to establish centres of excellence in the following areas:

1.	Reproductive Health
2.	Oncology
3.	Cancer
4.	Pediatrics
5.	Renal

Accordingly, it was agreed that these units can be implemented in tandem with the Karen Medical Centre and Institute.

In addition, it was agreed that MTRH, School of Medicine (MU), and NHIF will need to put in place a collaboration framework that would facilitate phase and/or simultaneous development of these centres of excellence for the purposes of expanded access to quality health and medical services in the country.

2. Karen Medical Centre and Institute

Despite of the initial challenges, it is noted and recommended in principle that Karen Medical Centre and Institute is based on a timely national need and should be implemented with a view to establish a facility that specializes on among others pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, surgery and physiotherapy

It should also encompass an Institute that will provide a wide range of medical education and research with priority given to expanded development and production of nurses, clinical officers and doctors as part of the efforts to address acute and persistent shortage of these cadres of the medical personnel.

The Institute should also give equal priority and attention to expanded skills and competencies for the health/medical administration, accounting and financial management with a view to address a wide range of challenges related to administration and financial management in medical institutions.

3. Business Model

Whereas it will be part of the national resource in health sector, it is recommended that the Centre and Institute should operate based on quality and competitive services at economic rate in order to maintain sustainability and the capability for improvements over the years in all areas of service delivery.

In addition, the Centre and Institute should be structured and maintained in ways that promote responsiveness to the population dynamics, trends in disease patterns, technology progress, economic conditions and market forces and maintaining at minimum most of the challenges that have had negative impact on the quality and competitive services at economic rate in the existing medical institutions.

4. Collaboration Network

In view of the fact that the Centre and Institute were intended to support over 500 hospitals accredited to the National Hospital Insurance Fund (NHIF), the need to be a referral facility and the centre of excellence, it is recommended that the Centre and Institute should maintain strong and viable local and international collaboration network with strategic partners and industry.

The immediate collaboration should involve School of Medicine (Moi University), Moi Teaching and Referral Hospital (MTRH), Strathmore University, Kenya Polytechnic University College and Kenya Medical Training College (KMTC) that have already provided varied levels of support.

In view of the above observation, it is recommended further that NHIF should put in place a collaboration framework necessary for competitive and complementary delivery of services. Such framework will facilitate commencement of the service delivery at the shortest time and in economic ways.

It was also noted and agreed that there were areas of immediate collaboration between NHIF Karen Medical Centre and Institute and Moi University/MTRH, KMTC that include

1.	Extended NHIF Membership education
2.	Improved skills and Competencies for the various cadres of the Hospital Administration
3.	Improved skills and Competencies for the various cadres of the Hospital Financial Management and Accounting- including standardization.
4.	Modernization of the Blood Transformation Unit
5.	Modernization of the Laboratories
6.	Modernization of Radiology Technologies

5. Implementation Plan

The five (5) years construction and capacity building period, the 5 years grace period and the twenty (20) years for the capital repayment period will need to be adopted and maintained largely because of the need to deliver the envisaged services at the earliest opportunity, the need for the ensure that the institution will be in a position to sustain the delivery of services and the repayment of the capital investment at the same time.

6. Project Returns and Capital Investment

It is recommended that capacity building measures be carried-out alongside the construction in order to bring the project to substantial operational levels, average of 70%, at the completion of the construction.

In view of this recommendation, it is projected that the annual income in the first year of operation will be US \$ 39 million before taxation and after discounting all the annual outgoings and operational costs.

Based on the updated designs and necessary capacity building, the total project estimates is US\$ 267 million; covering all the components that include the cost of land and maintenance, consultancies, project management, construction, equipment, furniture, furnishings, and the cost of finances .

7. Funding Model, Construction and Grace Period

It is recommended that eight percent (80%) of the project costs be secured through external borrowing at the interest rate 5% per annum and the balance of twenty percent (20%) be sourced locally at prevailing commercial lending rates. Indeed, because part of that has been carried-out amounting to over US\$ 17,931,981.49 (KES 1,380,762,574.96) or about 07% of the estimated project costs, it will even be more prudent to consider 70% external borrowing and 30% local mobilization of resources.

Accordingly, the external borrowing will need to be directed primarily to construction, expansion, supply of medical equipment, development of staff and service delivery (capacity building).

As indicated, it is recommended further that the 5 years construction/capacity building period and the 5 years grace period be adopted and maintained in order to enable the facility to consolidate the various revenue streams to achieve viable threshold.

8. The Capital Investment and Loan Repayment

Based on the viability analyses, sustainability among other considerations, it is recommended that the repayment of the capital investment be commenced at the beginning of the 11th year, i.e. 2022/2023 and continue for a period of twenty (20) years. During this period the growth of the income should be maintained at over 5% per annum in order to maintain better levels of viability and sustainability.

9. Expanded Infrastructure and Facilities

The updated designs and envisaged services indicate the need for expanded infrastructure and facilities. In view of these observations, it is recommended that additional land of equal size will be acquired to provide residential facilities for the students and the staff,

10. The Project Implementation and Management

It is recommended that the NHIF and its strategic partners/collaboration agencies should establish the Project Implementation Committee to provide and maintain the vision, mobilize the necessary resources, supervise the implementation and to review progress reports.

It is also recommended that the NHIF establishes a Project Coordination Office to provide coordination and supervision of the implementation of the project.

The Project Coordination office will work closely with the present project manager who will be responsibility for the various technical aspects of the project implementation and quality assurance.

The terms of reference for the project consultant will need to be expanded to include designs particularly for the expanded infrastructure, supervision of the construction and related quality assurance, transition from construction to operations, capacity building and development of the network infrastructure.

The Project Coordination office, the project manager and the consultant should have the responsibility to enforce the vision, set standards and quality assurance mechanisms, targets and gradual scaling up of the services.

MAJOR PUBLIC PRIVATE PARTNERSHIP RISKS

COMPONENT	NHIF	PRIVATE SECTOR PARTNER
<p>1. Design risk</p> <p>The Private party shall be responsible for designing the goods or services to meet a specified level. Contractually, this typically means that the private party accepts the design risk and must pay all redesign costs if the facility which does not meet the required performance standards</p>	<p>The Private party shall be responsible for designing the goods or services to meet a specified level. Contractually, this typically means that the private party accepts the design risk and must pay all redesign costs if the facility which does not meet the required performance standards.</p>	
<p>2. Construction risk</p> <p>The private party shall be required to construct a facility according to [performance specifications and a time schedule. In the contract, this is often dealt with by letting the private party bear all costs of meeting specifications and schedule requirements.</p>	<p>The private party shall be required to construct a facility according to [performance specifications and a time schedule. In the contract, this is often dealt with by letting the private party bear all costs of meeting specifications and schedule requirements.</p>	
<p>3. Site risk</p> <p>The risk relates to underlying site conditions and soil contamination and results in clean up costs, addition construction costs or frustration of contract. The risk is borne by the procurement entity if it has provided the site or by the private party where such party has been responsible for obtaining the site.</p>	<p>The risk relates to underlying site conditions and soil contamination and results in clean up costs, addition construction costs or frustration of contract. The risk is borne by the procurement entity if it has provided the site or by the private party where such party has been responsible for obtaining the site.</p>	
<p>4. Operating risk</p> <p>The private party is allowed full control over operating costs, including staffing numbers and levels. Contractually, the private party shall be made responsible for all operating costs and shall be expected to absorb all increase except where such increased costs arise from discriminatory change in law or increase in tariffs and related taxes in regulated industries. The service provider shall bear all costs of meeting specifications and schedule requirement</p>	<p>The private party is allowed full control over operating costs, including staffing numbers and levels. Contractually, the private party shall be made responsible for all operating costs and shall be expected to absorb all increase except where such increased costs arise from discriminatory change in law or increase in tariffs and related taxes in regulated industries. The service provider shall bear all costs of meeting specifications and schedule requirements.</p>	
<p>5. Demand risk</p> <p>The private party's revenues depend on the willingness and ability of users to purchase its services or goods. Contractually, the private party shall be expected to identify and satisfy the demand for the services or goods. In situations</p>	<p>The private party's revenues depend on the willingness and ability of users to purchase its services or goods. Contractually, the private party shall be expected to identify and satisfy the demand for the services or goods. In situations where the PPP does not sell directly to end users, the</p>	

<p>where the PPP does not sell directly to end users, the demand risk shall vest in the procuring entity.</p>	<p>demand risk shall vest in the procuring entity.</p>	
<p>6. Tariffs risk In regulated industries, payments for the goods or tariffs for the service are often set by the Government or the sector regulator. Contractually, the private party shall accept that tariffs may not be adjusted automatically and hence need to agree on measures to deal with situations such as tax increases that may affect the project's financial viability adversely</p>	<p>In regulated industries, payments for the goods or tariffs for the service are often set by the Government or the sector regulator. Contractually, the private party shall accept that tariffs may not be adjusted automatically and hence need to agree on measures to deal with situations such as tax increases that may affect the project's financial viability adversely.</p>	
<p>7. Collection risk In some public private partnership's, the private party some public private partnership's, the private par collects tariff revenues without any collection rate guarantee from the Government, while in others, the private party sells to the procuring entity. In the first scenario, contractually, the private party shall bear all the goods risks for collecting revenues from users of the goods or services, while the collection risk in the other scenario shall rest with the procuring off taker.</p>	<p>In some public private partnership's, the private party some public private partnership's, the private par collects tariff revenues without any collection rate guarantee from the Government, while in others, the private party sells to the procuring entity. In the first scenario, contractually, the private party shall bear all the goods risks for collecting revenues from users of the goods or services, while the collection risk in the other scenario shall rest with the procuring off taker.</p>	
<p>8. Credit risk The private party shall solely be responsible for paying its debt and the Government shall make no debt investment. The private party shall be responsible for its debt and debt service.</p>	<p>The private party shall solely be responsible for paying its debt and the Government shall make no debt investment. The private party shall be responsible for its debt and debt service.</p>	
<p>9. Force Majeure risk Force Majeure refers to events or circumstances that affects either party to the public private partnership and are not within the reasonable control (direct or indirectly) of the party affected, and which cannot be prevented, avoided or removed by such party acting in accordance with prudent operating practice such as acts of war, acts of God, epidemics, explosions, national wide labor disputes like strikes or lockouts and change in. Generally, if a party is prevented from or delayed in performing an obligation by reason of <i>force</i></p>	<p>Force Majeure refers to events or circumstances that affects either party to the public private partnership and are not within the reasonable control (direct or indirectly) of the party affected, and which cannot be prevented, avoided or removed by such party acting in accordance with prudent operating practice such as acts of war, acts of God, epidemics, explosions, national wide labor disputes like strikes or lockouts and change in. Generally, if a party is prevented from or delayed in performing an obligation by reason of <i>force majeure</i> the affected party shall be relieved from the consequences of its failure to</p>	

<p><i>majeure</i> the affected party shall be relieved from the consequences of its failure to perform that obligation; and shall be allowed time extension.</p>	<p>perform that obligation; and shall be allowed time extension.</p>	
<p>10. Political Risk including discriminatory change in law Political risks include events or circumstances arising from an action or inaction of the government or any Governmental authority exercising authority over a party which adversely affect the public private partnership such as blockade, embargo, riots, discriminatory change in law, expropriation and non renewal or revocation of project licenses without default on the part of the private party. The political risks shall be best placed with the Government</p>	<p>Political risks include events or circumstances arising from an action or inaction of the government or any Governmental authority exercising authority over a party which adversely affect the public private partnership such as blockade, embargo, riots, discriminatory change in law, expropriation and non renewal or revocation of project licenses without default on the part of the private party. The political risks shall be best placed with the Government</p>	



103

19

MINISTRY OF MEDICAL SERVICES
OFFICE OF THE PERMANENT SECRETARY

Telegraphic Address: "MINMEDSERVICES" NAIROBI
Telephone: Nairobi 254-20-2717077
Fax: 254-20-2713234
When replying please quote

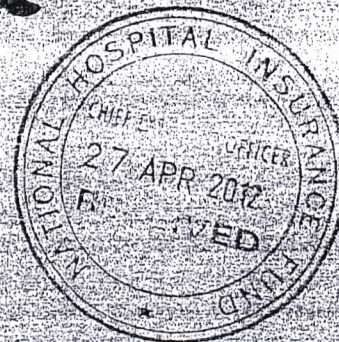
AFYA HOUSE
CATHEDRAL ROAD
P.O.Box 30016-00100
NAIROBI

MEET/37/A/VOL.III/17

April 27, 2012

ANNEXE 16

Mr. Richard Kerich
Chief Executive Officer
National Hospital Insurance Fund (NHIF)
NAIROBI



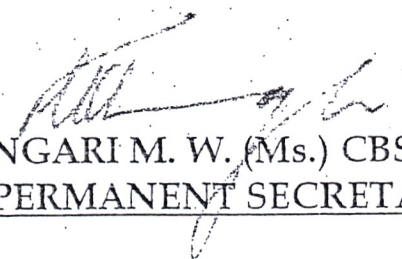
Dear

IMPLEMENTATION OF CABINET DECISIONS OF MAY 3, 2009
ON NHIF MEDICAL RESOURCE CENTRE, NAIROBI

Urgently avail the status report on NHIF Medical Resource Centre, Nairobi which was approved by Cabinet on May 3, 2009.

This information must reach my office this afternoon Friday, April 27, 2012 for onward transmission to Cabinet Office.

Yours


NGARI M. W. (Ms.) CBS
PERMANENT SECRETARY

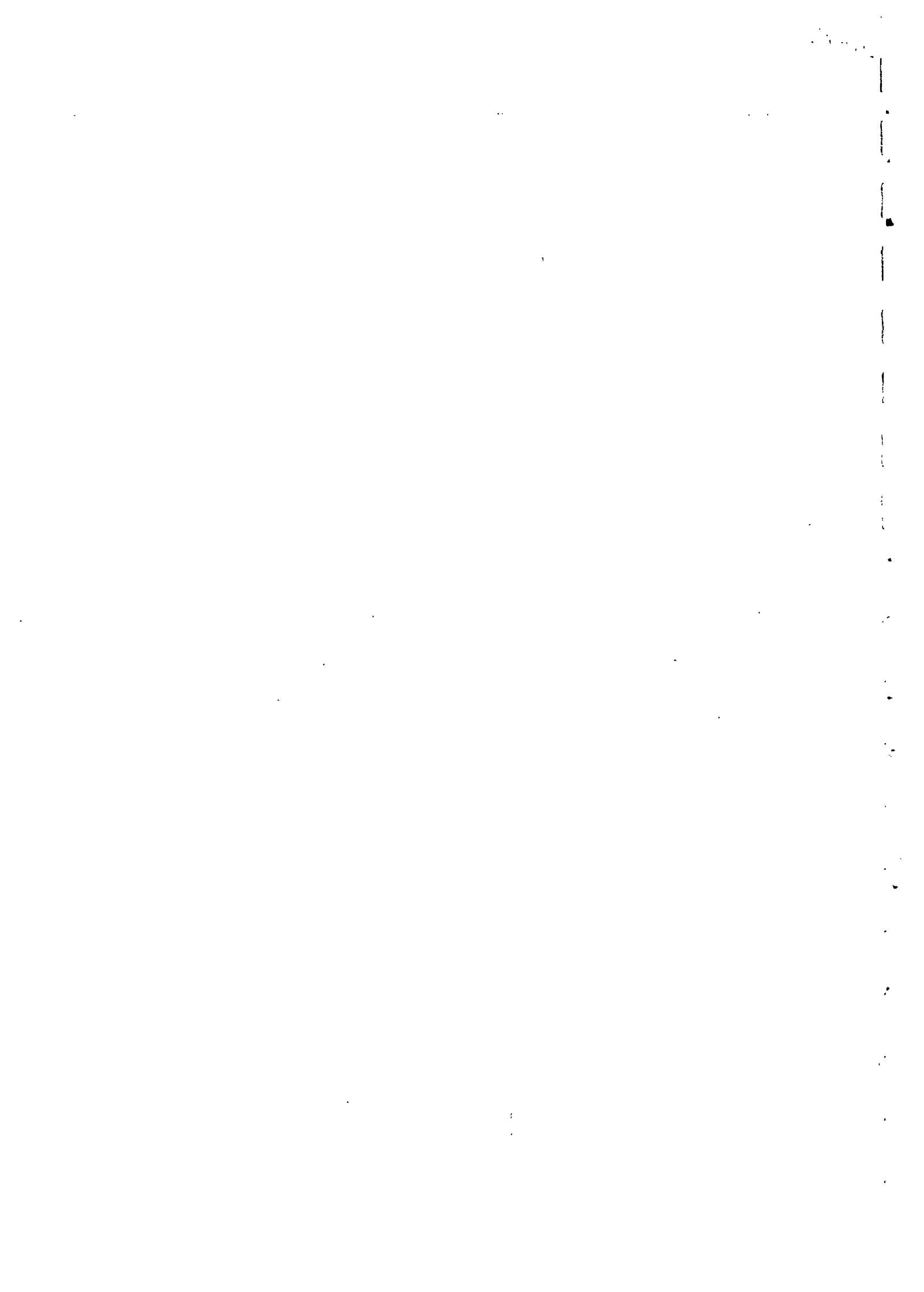


Encl.

31 343 44 2

REPORT ON CABINET MEMORANDA FROM 2008 TO 2012 (MEDICAL SERVICES)

MINISTRY.	CAB NO.	TITLE	MEETING NUMBER	DATE COMMUNICATED TO PARMANENT SECRETARY	REPORT ON STATUS OF IMPLEMENTATION
MEDICAL SERVICES	CAB(08)57	NHIF MEDICAL RESOURCE CENTRE - NAIROBI	4TH 2009	APPROVED 05/03/2009	
MEDICAL SERVICES	CAB(09)41	NOMINATION OF THE REGISTRAR OF NURSING COUNCIL TO THE BOARD OF INTERNATIONAL COUNCIL	7TH 2009	APPROVED 25/6/2009	
MEDICAL SERVICES	CAB(10)54	INTERNATIONAL CONGRESS FOR THE BRITISH DOCTORS ASSOCIATION TO BE HELD FROM 27TH TO 28TH SEPTEMBER 2010 IN NAIROBI	6TH 2010	APPROVED 9-SEPT-2010	
MEDICAL SERVICES	CAB(11)109	THE HOSTING OF THE 9TH BI-ANNUAL WORLD CONFEDERATION OF PHYSICAL THERAPISTS AFRICA (WCPT-A) CONGRESS FROM 6TH -9TH JUNE, 2012 AT KICC, NAIROBI	2ND MEETING 2012	APPROVED 19/01/2012	
MEDICAL SERVICES	CAB(11)20	SESSIONAL PAPER ON THE KENYA NATIONAL PHARMACEUTICAL POLICY	2ND MEETING 2012	APPROVED 19/01/2012	
MEDICAL SERVICES	CAB(11)73	THE NATIONAL WORKSHOP ON NON-COMMUNICABLE DISEASES 23RD-26TH AUGUST 2011	11TH MEETING 2011	APPROVED 18/8/2011	



105



NATIONAL HOSPITAL INSURANCE FUNDC
HEAD OFFICE
NHIF BUILDING, RAGATI ROAD
P.O. BOX 30443 - 00100,
NAIROBI

HF/C/969 VOL.II/ (105)

30th April 2012

Ngari M. W. (Ms.) CBS
Permanent Secretary
Ministry of Medical Services
Afya House
P. O. Box 30016-00100
NAIROBI

ANNEXE 17

Dear *Mary,*

RE: IMPLEMENTATION OF CABINET DECISIONS ON MAY 3, 2009 ON
NHIF MEDICAL RESOURCE CENTRE, NAIROBI

Reference is made to your letter ref: MEET/37/A/VOL.III/17 dated 27th April 2012.

in line with the recommendation of the Ministry of Medical Services on the identification of the Proposed Karen Medical Centre of Excellence and Institute as a flagship of Vision 2030, the Board of NHIF has addressed the subject matter as follows:-

THE PROJECT AS A FLAGSHIP FOR VISION 2030

The Board of NHIF commissioned Consultants to prepare a detailed concept paper and implications of the proposals outlined by the Government on the Project.

1.1.1 REPORT

The design composed of (1) The Referral Centre (2) The Medical Production Centre (3) The Medical Education Centre (Institute), (4) The Administration Offices and support facilities expected to occupy approximately 155,000 square metres.

a) Proposed Resource Medical Center

In the year 2010/2011, the Medical Centre was adopted in The Kenya Vision 2030 as one of the flagship projects in the health sector with a view to establish a

model centre of excellence and a third referral hospital in Kenya in collaboration with existing and promising teaching and referral institutions among others.

With these developments, it was proposed that the model medical centre should be re-designed to specialize on pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, specialized surgery and physiotherapy among others.

It was considered also that the Institute will give priority and even high attention to expanded development and production of nurses, clinical officers and doctors as part of the efforts to address acute and persistent shortage of these cadres of the medical personnel.

In addition, it was considered that the Institute will give equal priority and attention to expanded skills and competencies of the health/medical administration, accounting and financial management with a view to address a wide range of challenges related to administration and financial management in medical institutions.

b) The Need and the Rationale

The Proposed Medical Resource Centre had been designed to provide specialized services related to pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology, dental care and dental surgery, surgery and physiotherapy; and to expand the production of trained personnel in these and related areas.

c) Feasibility Study And Business Plan

The feasibility study addressed an assessment of the demand, nature and levels of medical services to be provided, target segment of the population, the scope and the level of infrastructure to be developed, preliminary estimates of the capital investments and expected revenue.

A survey was carried-out with 75 hospitals accredited to NHIF. The hospitals that were visited and/or interviewed included Kenyatta National Hospital (KNH), Moi Teaching and Referral Hospital (MTRH), Provincial Hospitals, Nairobi Hospital, Aga Khan University Hospital, Pandya Hospital, Machakos District Hospital, Kilifi District Hospital and Diani Beach Hospital among others.

The local institutions that were considered and visited with a view to establish possible collaboration network included the School of Medicine (Moi University), Moi Teaching and Referral Hospital (MTRH), Aga Khan University Hospital, Strathmore University, KEMU and Kenya Medical Training College (KMITC) among others.

In addition, attention was given to Kenya Polytechnic University College and Mombasa Polytechnic University College because of various training programmes

in medical sciences, medical technology and pharmaceutical technology and management.

d) Business And PPP Model

The feasibility study and the business plan recommended:-

- That the Centre be operated based on quality and competitive services at economic rate in order to maintain sustainability and the capability for improvements over the years in all the areas of service delivery.
- That the centre and its operations be structured in ways that will promote responsiveness to the population dynamics, trends in disease patterns, technology progress, economic conditions and market forces and maintaining at minimum most of the challenges that have had negative impact on the quality and competitive services at economic rate in the existing medical institutions.
- The adoption of partnership and Public Private Partnership (PPP) business model as a measure to ensure affordable investments by various parties, rapid delivery of services and guarantee for continued improvement of service delivery and infrastructure.

e) Social Economic Benefits

The feasibility study states that the core benefits will include the establishment of the Proposed Medical Resource Center that will support specialized medical services, medical and pharmaceutical production, and medical education for various the cadres of manpower in the health/medical sectors.

In addition, it will have other secondary benefits that will include expanded employment opportunities, technology transfer, a wide range of backward and forward linkages and additional ancillary facilities.

f) The Overall Viability and Financial Returns

It was expected that the facility will operate at an average capacity of seventy (70%) per annum at the commencement of the operations.

Based on the various services to be provided at the completion of the construction and related assumptions, the projected annual income in the first year of operation was computed at US \$ 39 million before taxation and after addressing all annual outgoings and operational costs.

		Post Construction Revenue Projections						
		2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	
1	opening balance	(23,577,748,044.9)	(23,577,748,044.9)	(20,401,327,002)	(17,066,084,906)	(13,564,080,706)	(9,886,976,295)	

2	cash in-flows							
	a)Consultations	3,165,964,561.0	3,324,262,789	3,390,748,044.8	3,492,470,486.2	3,597,244,600.8	16,970,690,481.8	
	b)Special care units	3,422,796,192.0	3,593,936,002	3,665,814,721.6	3,775,789,163.3	3,889,062,838.2	18,347,398,916.7	
	c)Wards	1,516,393,198.0	1,592,212,858	1,624,057,115.1	1,672,778,828.5	1,722,962,193.4	8,128,404,192.8	
	d)Maternity wing	746,226,899.0	783,538,244	799,209,008.8	823,185,279.1	847,880,837.5	4,000,040,268.3	
	e)Renal department	131,669,453.0	138,232,926	141,017,984.2	145,248,523.7	149,605,979.4	705,794,865.9	
	f)Physiotherapy	32,917,363.0	34,563,231	35,254,495.8	36,312,130.6	37,401,494.6	176,448,715.1	
	g)Dental/orthopedics	1,975,141,792.0	2,073,898,882	2,115,376,859.2	2,178,838,165.0	2,244,203,310.0	10,587,459,000.8	
	h)In vitro fertilization	192,117,952.0	201,723,850	205,758,326.6	211,931,076.4	218,289,008.7	1,029,820,213.3	
	i)Pharmacy Unit	740,955,129.0	778,002,885	793,562,943.2	817,369,831.5	841,890,926.4	3,971,781,715.5	
	j)Medical school	781,501,635.0	820,576,717	836,988,251.1	862,097,898.6	887,960,835.6	4,189,125,337.0	
3	Total cash in-flows	12,705,684,174	13,340,968,382.7	13,607,787,750.4	14,016,021,382.9	14,436,502,024.4	68,106,963,714.3	

Based on various reviews, available data and projections, the annual outgoings and operational costs was computed at approximately 75% of the gross revenues. The initial returns will be expected by the 7th year of the project implementation.

1.1.2 THE OVERALL PROJECT COSTS AND CAPITAL INVESTMENT

The feasibility study and the business plan indicated that the total project estimates was US\$ 267 million; covering all the components that include the cost of land and maintenance, consultancies, project management, construction, equipment, furniture, furnishings, and the cost of finances

		Capital Investment						
Components	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	total	
A.	Land							
	1. Purchased	600,000,000.0					600,000,000.0	
	2. Expansion		694,967,428.0				694,967,428.0	
B.	Professional Fee							
	1. Pre-feasibility services							

		744,350,178.2						744,350,178.2
	2. Business Plan		200,000,000.0					200,000,000.0
	3. Pre-contract services		2,185,450,485.8					2,185,450,485.8
	4. Post Contact Services		104,069,070.8	208,138,141.5	208,138,141.5	208,138,141.5	208,138,141.50	936,621,636.8
C.	Construction Cost							
	1. Medical Centre		581,341,049.9	1,259,572,274.8	1,379,012,598.2	1,282,122,423.2	997,206,329.12	5,499,254,675.2
	2. Medical Education		196,433,011.1	425,604,857.5	465,963,305.2	433,224,470.0	336,952,365.54	1,858,178,009.3
	3. Administration		225,441,878.3	488,457,403.0	534,775,912.3	497,202,265.9	386,712,873.46	2,132,590,332.9
	4. Production Units		194,013,410.6	420,362,389.7	460,223,714.6	427,888,146.2	332,801,891.47	1,835,289,552.6
	5. Medical Equipment					2,837,264,657.4	3,467,767,914.60	6,305,032,572.0
D.	Cost of Finance	36,412,396.8	82,982,400.1	71,324,112.5	83,806,896.5	118,535,176.7	192,952,191.70	586,013,174.3
							Total	23,577,748,044.9

1.1.3 PROJECT FUNDING MODEL, CONSTRUCTION AND GRACE PERIOD

The feasibility study and the business plan recommended that seventy percent (70%) of the project costs be secured through external borrowing at the interest rate 5% per annum and the balance of thirty percent (30%) be sourced locally at prevailing commercial lending rates. The reports emphasized that such arrangement was necessary taking into account the fact that about 7% of the project costs had already been raised locally.

The external borrowing will be directed primarily to construction, expansion, supply of medical equipment, development of staff and capacity building for service delivery.

1.1.4 THE CAPITAL INVESTMENT AND LOAN REPAYMENT

The feasibility study and the business plan indicated that the repayment of the capital investment was expected to commence at the beginning of the 11th year, i.e. 2022/2023 and continue for a period of twenty (20) years. Projections carried-out indicate that the facility was expected to realize an income growth of over 5% per annum over the loan period.

The feasibility study and the business plan outlined the loan repayment schedule of the Kshs 23,577,748,044.90 (including the costs for land, construction and finance) as follows: -

	Year	Principal loan repayment	Balance of principal	Interest at 5% P.A	accumulated	Total
		over 20 years with 5 years of grace period	amount	on reducing balance	interest	Annual Repayment
6.	2016/2017	0.00	23,577,748,044.90	1,178,887,402.24	1,178,887,402.24	0.00
7.	2017/2018	0.00	23,577,748,044.90	1,178,887,402.24	2,357,774,804.48	0.00
8.	2018/2019	0.00	23,577,748,044.90	1,178,887,402.24	3,536,662,206.72	0.00
9.	2019/2020	0.00	23,577,748,044.90	1,178,887,402.24	4,715,549,608.96	0.00
10.	2020/2021	0.00	23,577,748,044.90	1,178,887,402.24	5,894,437,011.20	0.00
11.	2021/2022	1,178,887,402.24	22,398,860,642.66	1,119,943,032.13	5,894,437,011.00	8,193,267,445.37
12.	2022/2023	1,178,887,402.24	21,219,973,240.42	1,060,998,662.02	0.00	2,239,886,064.26
13.	2023/2024	1,178,887,402.24	20,041,085,838.18	1,002,054,291.91	0.00	2,180,941,694.15
14.	2024/2025	1,178,887,402.24	18,862,198,435.94	943,109,921.80	0.00	2,121,997,324.04
15.	2024/2026	1,178,887,402.24	17,683,311,033.70	884,165,551.69	0.00	2,063,052,953.93
16.	2026/2027	1,178,887,402.24	16,504,423,631.46	825,221,181.57	0.00	2,004,108,583.81
17.	2027/2028	1,178,887,402.24	15,325,536,299.22	766,276,811.46	0.00	1,945,164,213.70
18.	2028/2029	1,178,887,402.24	14,146,648,826.98	707,332,441.35	0.00	1,886,219,843.59
19.	2029/2030	1,178,887,402.24	12,967,761,424.74	648,388,071.24	0.00	1,827,275,473.48
20.	2030/2031	1,178,887,402.24	11,788,874,022.50	589,443,701.13	0.00	1,768,331,103.37
21.	2031/2032	1,178,887,402.24	10,609,986,620.26	530,499,331.01	0.00	1,709,386,733.25
22.	2032/2033	1,178,887,402.24	9,431,099,218.02	471,554,960.90	0.00	1,650,442,363.14
23.	2033/2034	1,178,887,402.24	8,252,211,815.78	412,610,590.79	0.00	1,591,497,993.03
24.	2034/2035	1,178,887,402.24	7,073,324,413.54	353,666,220.68	0.00	1,532,553,622.92
25.	2035/2036	1,178,887,402.24	5,894,437,011.30	294,721,850.57	0.00	1,473,609,252.81
26.	2036/2037	1,178,887,402.24	4,715,549,609.06	235,777,480.45	0.00	1,414,664,882.69
27.	2037/2038	1,178,887,402.24	3,536,662,206.82	176,833,110.34	0.00	1,355,720,512.58
28.	2038/2039	1,178,887,402.24	2,357,774,804.58	117,888,740.23	0.00	1,296,776,142.47
29.	2039/2040	1,178,887,402.24	1,178,887,402.24	58,944,370.11	0.00	1,237,831,772.35

30.	2040/2041	1,178,887,402.24	0.00	0.00	0.00	1,178,887,402.24
31.	2041/2042	0.00	0.00	0.00	0.00	0.00
	Total	23,577,748,044.80		17,093,867,332.58		40,671,615,377.38

1.1.5 CASH FLOW, INTERNAL RATE OF RETURN AND VIABILITY

The feasibility study and the business plan indicated the break-even point, from the various income streams, will be between 18% and 19% of the rate of interest. The Internal rate return (IRR) was determined to be 18.23% and the average annual rates of return (profitability) over the period of twenty years will be 24.21%.

3. EXPRESSION OF INTEREST

The Board of NHIF approved the process the sourcing of Expression of Interest (EOI) to determine the proposals outlined above.

3.1 IDENTIFICATION OF SERVICE PROVIDERS FOR CONSTRUCTION OF PROPOSED KAREN MEDICAL CENTRE FOR EXCELLENCE AND INSTITUTE

The Expression of Interest for Construction, Development and Financing of Karen Medical Centre of Excellence and Institute was advertised on the print Media on 7th November 2011 (Nation Newspaper) and on 9th November 2011 (Standard Newspaper).

The scope of work for the construction and development was as follows:

- Construction and development for (1) The Referral Centre (2) The Medical Production Centre (3) The Medical Education Centre (Institute), and (4) The support facilities and Administration offices.
- Equipping the centre with medical technologies for pediatrics, reproductive health, cancer, renal, oncology, cardiac (cardiology), neurology, hematology, dermatology and specialized surgery among others.
- It will also include equipping the institute with learning and teaching technologies including e-health and e-learning infrastructure.
- Carrying out capacity building intended to accelerate delivery of services prior, during and after the construction of the Karen Medical Centre of excellence and Institute. It is envisaged that in the first seven(7) years, the centre will maintain a staff establishment consisting of Director and Deputy Directors; Registrar & Deputy Registrars; Deans and Associate Deans; Chief Nurse, Nurse Managers and Nurses; Doctors and Consultants; Technologists and Technicians; Chief Librarian and Managers; Chief Information officers and ICT Managers; Professors and Lecturers; and Administration support staff (Secretaries)

- In addition, the staff whose assignments will be periodical will be maintained on part-time basis and will include some of the Professors, Lecturers, Doctors, Consultants, Technologies and Technicians.
- Availability of Financing options for the above and advantages. It is envisaged that the EOI will provide options that will include (1) Build Operate and Transfer (BOT) 2. Build and Transfer (BT) in conjunction with pure loan, 3. Build and Transfer (BT) in conjunction with Government Quarantines and 4. Any other viable financing option.

Responses were opened on 23rd November 2011. The following thirteen (13) firms responded.

1. China Gezhouba Group
2. Bam International
3. Shapoorij Pallonji and Company Ltd
4. Phillips Medical Systems e. A Ltd
5. N. K Brothers Limited
6. China Wu- Yi Company Ltd
7. China Camce Engineering Ltd
8. Intermediate Global Consultants
9. Volcanic Plumbing Works
10. Pal International
11. Armstrong and Duncan
12. Ceddex & S A IBT Group
13. Africare Limited

4. APPROVAL OF PROJECT CONCEPT AND FEASIBILITY STUDY

The Board of NHIF submitted the background Concept Paper and Feasibility Study to the Ministry of Finance in compliance with Legal Notice No.38 Of 2009 for consideration and approval.

The Project Background and the Report of the Feasibility Study is attached.

Yours *Sincerely,*



RICHARD KERICH
CHIEF EXECUTIVE OFFICER

Encl.

Registry (106)

REPUBLIC OF KENYA
MINISTRY OF FINANCE

Telegraphic Address: 22921
FINANCE - NAIROBI
Telephone: 252299
When replying please quote



THE TREASURY
P. O. Box 30007-00100
NAIROBI
KENYA

Ref: ZZ/MoF/253/016/K

30th April 2012

The Chief Executive Officer
National Hospital Insurance Fund
NHIF Building, Ragati Road
P. O. Box 30443-00100
Nairobi

ANNEXE 18



RE: PROPOSED KAREN MEDICAL CENTRE AND INSTITUTE

Reference is made to the above mentioned subject and your letter dated April 17th 2012 and the meeting conducted in your offices on April 20th 2012 in the presence of the 'Karen Projects Consultants' and Dr. Rono from NHIF. Please note the following:

- 1) In our opinion the Karen project is very suitable to PPP procurement and could be the pilot project for Health PPPs. However, the project needs tremendous structuring as to its size, staging, financing and private sector role.
- 2) Benchmarking on recent international operating PPP health projects in Africa, Europe and Canada, we are suggesting the following:
 - a) Restructuring the size of the project to be on 3(three) stages each 300 beds. This would be within the international size of current medical facilities, manageable and financeable.
 - b) If the center will be a "Centre of excellence", it has to be highlighted in which medical specialty or whether it will be a general hospital.
 - c) A revenue creation percentage of the centre (not based on economic charges) should be there (suggested 20% of beds No - say 60 beds for each stage) to create revenue for settlement of payments of private sector.
 - d) The private sector would be encouraged to bare the financial risk of the project through financing the investment cost, but only on turnkey basis for the Equipment, (including warranties and 5 years maintenance contract). Upon decision of NHIF to replace equipments, facility operator will have right of first refusal to the lowest bid achieved through public tendering.


3) The current study done by the project consultant from feasibility side would suffice as a pre-feasibility study. A proper feasibility study has to be carried out by international health PPP consultants including:

- Capital cost and operating costs
- Socio Economic study
- Health market study
- Full detailed financial feasibility study

4) We suggest that payment will be structured on 20 years including 3 years construction and 17 years of operation based on service availability payment on a maximum number of patients quarterly and an equation for extra patients and collection of medical fees will be performed by public sector.

Based on the above, you are kindly requested to restructure the project accordingly and carry out the feasibility study.

The funding of the project shall be determined after the conclusion of the feasibility study.


Eng. Stanley K. Kamau
Director, Public Private Partnership Secretariat
For: PERMANENTS SECRETARY/TREASURY

Copy to: Permanent Secretary
Ministry of Medical Services
Afya House
Nairobi

HF/C/969 VOL. III/ (48)

10th June 2013

Mr. James Macharia,
Cabinet Secretary
Ministry of Medical Services
Afa House
P. O. Box 30016 - 00100
NAIROBI

ANNEXE 19

Dear *James,*

RE: NHIF BOARD REPORT ON THE PROPOSED KAREN MEDICAL CENTRE OF EXCELLENCE

The Board of NHIF approved the establishment of a Staff Training/Recreational facility for the Fund. The Karen property is L.R. No. 24968/2 acquired by the Board in the year 2002.

The Fund commissioned consultants in accordance with the Architects and Quality Surveyors to carry out a feasibility study and design works on the development of the facility. However the fee notes were not honored as the NHIF Board had not received prior approval for the works from the parent Ministry and the Treasury.

This resulted in a dispute which was taken to arbitration. Upon consultation with the Ministry of Medical Services and the Attorney General, the Board and the consultants recorded a consent order in the High Court and the matter was settled for the Architects and Quantity Surveyors. The claims lodged by engineers were arrived at and paid after settlement deeds were executed.

The Ministry of Medical Services identified the envisaged Resource Centre as one of the flagship projects for realization of the Kenya Vision 2030 in the Health Sector. The communication from the Ministry indicated further that the project would be financed through a line of credit from Development Bank of China, in partnership with Development Bank of Kenya.

The Ministry of Medical Services instructed the Board of NHIF to be the Lead Agent of the Project and facilitate timely implementation.

The Board of NHIF commissioned Consultants to prepare a detailed concept paper and implications of the proposals outlined by the Government on the project.

The Consultants presented the Business Plan, the rationale of the Project, Capacity, Project Design and the Feasibility Study on the Project. The Board of NHIF submitted the background Concept Paper and Feasibility Study to the National Treasury in compliance with Legal Notice No.38 Of 2009 for consideration and approval. The matter is pending with the National Treasury.

The Report is presented as a status of the Project and the Board's position on the matter is as follows:

1. The Parent Ministry appointed the Board as the lead agent on the Proposed Karen Medical Centre of Excellence.
2. The Fund was the instructing Client on the commissioning of Consultants as the Lead Agent on behalf of the Government and there was need to involve the Ministry of Health and the National Treasury on the status of the project which was implemented based on the instructions from the Ministry of Health.
3. The Fund had already incurred substantial resources for services rendered by the Consultants following the instructions given by the Parent Ministry to revise the original project to adopt the Proposed Karen Medical Centre of Excellence. The Fund was faced with pending bills and the need to seek directions from the Government on the same was paramount to guide the Board on the said obligations.
4. The Board resolved that it would not proceed with the Project beyond the Feasibility Study as the finances were not available for the same and appropriate approvals had not been received from the National Treasury.
5. The funding of the Project was envisaged to be addressed through Public Private Partnerships and clarification should be sought from the Government on the extent the Board had funded the Project and the way forward for all pending bills and implementation of the development of the Project.

This is submitted as the status by the Board of NHIF of the Proposed Karen Medical Centre of Excellence and the Board seeks further advise and necessary direction.

Yours


S. ole KIRGOTTY
CHIEF EXECUTIVE OFFICER

APPENDIX 1617
APPENDIX 1617
20

Telegrams: "SHERIA", Nairobi

Telephone: Nairobi 227461

When replying please quote
AG/CIV/770/07

Ref. No.
and date

ATTORNEY-GENERAL'S CHAMBERS

P.O. Box 40112-00100

NAIROBI, KENYA

....., 20....

18th July 2007

The Chief Executive
National Hospital Insurance Fund
P.O. Box 30443-00100
NAIROBI



Re: Opinion on Challenging Arbitration Award on Proposed Resource and Recreation Centre on plot No. L.R 24968/2 in Karen Nairobi

CS
Pse let's
discuss
20/7/07

We refer to your letter Ref/HF/LD/74 Vol.II/(69) dated 29th May seeking our advice on the chances of challenging the arbitral award made in favour of the consultants on the 18th May 2007. We have studied the documents forwarded to our office on the above matter and noted that it is not disputed that the consultants were appointed by the NHIF Board and commissioned to produce various Drawings and Bills of Quantities for the proposed resource and recreation centre at Karen, Nairobi. The letters informing the consultants of the Board's decision to commission them stated that their terms of engagement will be in accordance with the Architects and Quantity Surveyors Act Chapter 525 of the Laws of Kenya.

It is apparent that the project was not approved by the Treasury as required under the State Corporations Act. The consultants however proceeded to render their services and produced the required Drawings and Bills of Quantities. The Board failed to pay for the services resulting in the consultants' invoking the provision of the Architect and Quantity Surveyors Act Chapter 525 to refer the dispute to arbitration. The arbitration was heard and determined by Mr. Festus Mukunda Litiku who made an award in favour of the consultants on the 18th May 2007.

You have sought our advice as to whether you may challenge the award on grounds of the failure to follow the procurement procedures. The conditions of engagement and scale of professional charges for Architects and Quantity Surveyors are governed by the Architects and Quantity Surveyors Act Chapter 525. The Act sets out in the Fourth Schedule the conditions of engagement and the mode of calculation of fees for Architects and Quantity Surveyors. The Act provides under Article 7 for arbitration in the event of a dispute as to fees payable to these professionals. It is pursuant to the said provision that the dispute was referred to arbitration.

The Arbitration Act No.4 of 1995 governs the process of arbitration in Kenya. The Act is explicit on the instances when a party to arbitration can have recourse to the High Court to set aside an award S.35 (1) Recourse to the High Court against an arbitral award

0 2 3 4 5 6 7 8 9 A

may be made only by an application for setting aside any award under subsections (2) and (3).

(2) An arbitral award may be set aside by the High Court only if-

(a) the party making the application furnishes proof-

- (i) that a party to the arbitration agreement was under some incapacity; or
- (ii) the arbitration agreement is not valid under the law to which the parties have subjected it or, failing any indication of that law, the law of Kenya; or
- (iii) the party making the application was not given proper notice of the appointment of an arbitrator or of the arbitral proceedings or was otherwise unable to present his case; or
- (iv) the arbitral award deals with a dispute not contemplated by or not falling within the terms of the reference to arbitration or contains decisions on matters beyond the scope of the reference to arbitration, provided that if the decisions on matters referred to arbitration can be separated from those not so referred, only that part of the arbitral award which contains decisions on matters not referred to arbitration may be set aside; or
- (v) the composition of the arbitral tribunal or the arbitral procedure was not in accordance with the agreement of the parties, unless that agreement was in conflict with a provision of this Act from which the parties cannot derogate; or failing such agreement, was not in accordance with this Act; or

(b) The High Court finds that-

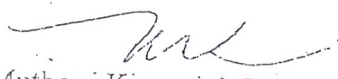
- (vi) the subject-matter of the dispute is not capable of settlement by arbitration under the law of Kenya; or
- (vii) the award is in conflict with the public policy of Kenya:

An application to set aside an award must be made within 3 months of the date of receipt of award.

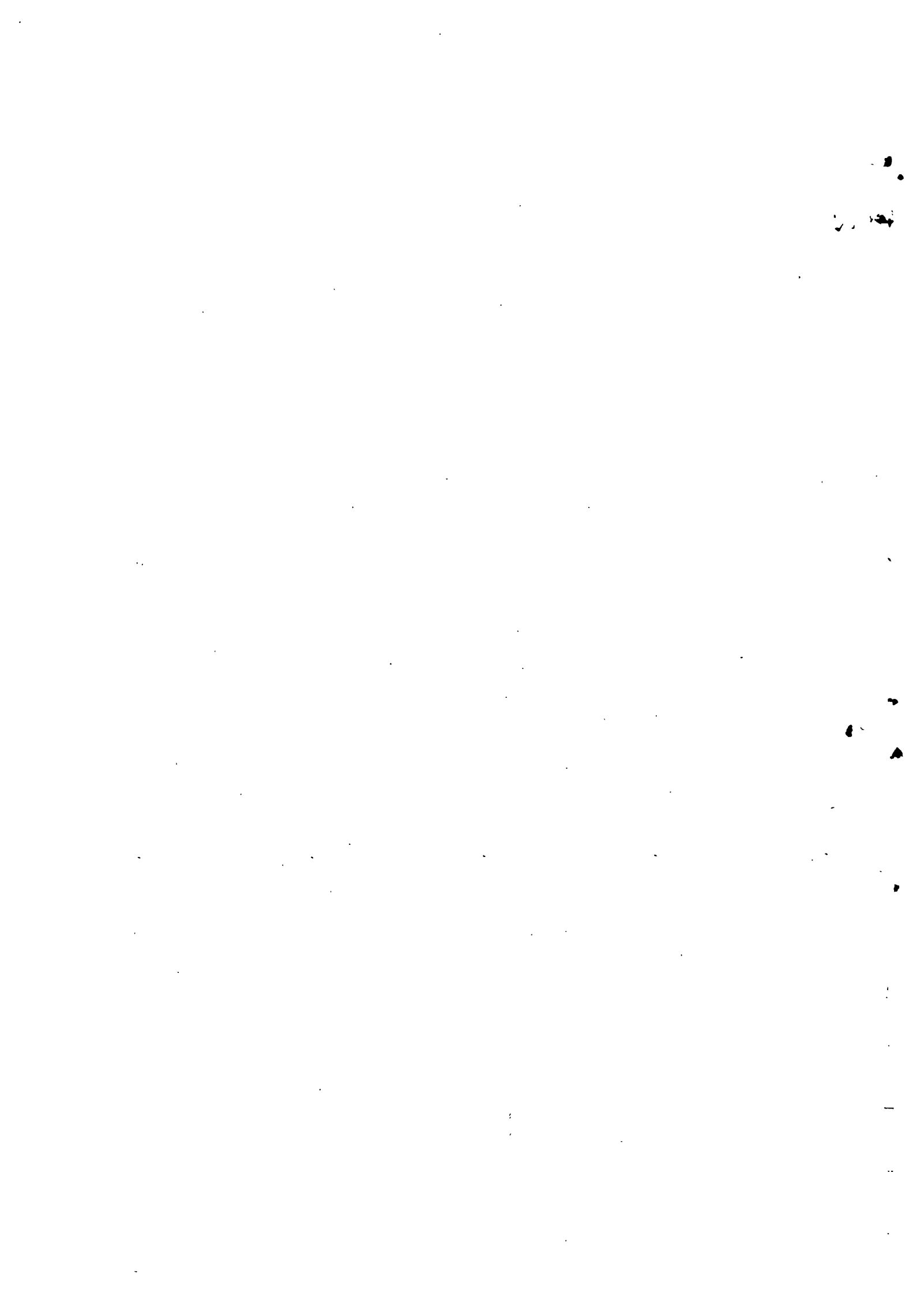
The only ground upon which you intend to challenge the award being that of non-compliance with the procurement procedures, does not fall within the grounds set out in S. 35. The Arbitrator had statutory jurisdiction to hear the dispute. The Arbitral Tribunal followed the due process of the law.

One of the principle objectives of arbitration is the finality of settlement of disputes through limiting instances where arbitral awards could be taken to court for challenge. The Court of Appeal in a recent decision of November 2006 C.A. NO. 57 OF 2006 – Kenya Shell Ltd –vs- Kobil Petroleum Ltd reaffirmed this objective. The High Court has also made similar observation in refusing to interfere with an arbitral award see the case of Express Kenya Ltd –vs- Kanyago 2002 LLR 1638.

In the circumstances it is our considered view that this is not a proper case which you can successfully challenge the award within the purview of the law. We recommend that you settle the award.



Muthoni Kimani, MBS
Deputy Solicitor General
For: Attorney General



409

4104 ✓



P.O. Box 39928 - 00623
 Nairobi
 Tel: 2718353 / 2711873 / 2711876
 Fax: 254 - 2 - 2711874
 47 Mucai Drive
 Off Ngong Road
 E-mail: bsl@wananchi.com

July 12 2013

THE CHIEF EXECUTIVE,
 NATIONAL HOSPITAL INSURANCE FUND,
 P. O. BOX 30443-00100,
 NAIROBI.

*Brian Mwangi
 PSE TNA
 cc of M
 12/7/2013*



Dear Sirs,

REF; PROPOSED SPECIALIZED MEDICAL CENTRE OF EXCELLENCE AT KAREN ON PLOT LR.NO.24968/2 FOR NHIF

PROJECT STATUS

We refer to the following;

- Our Fees Invoice No. 4 sent to you vide our letter dated May 27, 2013
- NHIF Board/Management Meetings with Consultants

Fees Payment

We would like to bring to your attention that more than 30 days have elapsed since we submitted our fees invoice and we are yet to receive any payment or response from your office either seeking clarification or a proposal on how to settle the Fees.

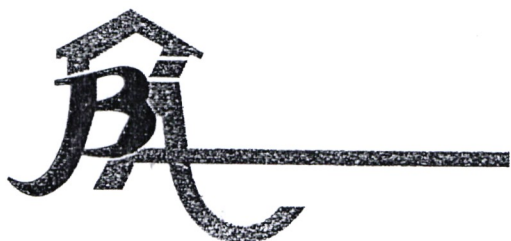
You are to note that, according to procurement rules, any invoice not settled within 30 days of receipt, starts to attract interest. It is our considered opinion that payment of interest accrued due to delay in settling the invoice will jeopardize the implementation of the project given the huge amounts involved.

Board/Management Meetings

Your are to recall that we have held several meetings with your Board where we have presented the project and responded to all issues related to its inception and progress up to the current status as highlighted here under.

The Project was initiated by NHIF in 2001 when we were, together with other consultants, commissioned to offer Architectural Consultancy Services for the design, documentation and Supervision of the construction of the proposed Medical Resource Centre at Karen. We duly did all the design and documentation up to tender stage. However in 2003, there was a disagreement between the consultants and NHIF on how to progress with the project and the settlement of Fees accrued to that stage.

The dispute was taken to Arbitration and the Arbitrator returned a verdict in our favor. NHIF went to Court seeking the award to be set aside. In subsequent events, there was an out of court settlement where both parties agreed



that the consultants should waive part of the interest accrued since NHIF intended to proceed with the project and the fees paid as per the negotiations be considered as interim fees on the execution of the project.

Over time the objective and scope of the project have been revised with clear instructions from the client which have resulted in the Medical Resource Centre being up-graded to a Specialized Medical Centre of Excellence and a flagship project in the Health Sector under Vision 2030. We have duly carried out your instructions including the latest instruction to prepare documents for tender vide your letter dated February 06 2012.

Way Forward

We have, together with the other firms involved in this project, incurred heavy costs in executing all your instructions given the huge scope of the project.

In view of the above and in the best interest of the project and all stakeholders involved, we are requesting you to urgently settle the fees or give us a proposal on how you intend to settle the same. We are also requesting you to give the way forward for the project and the times lines involved to enable us plan ahead.

Thank you.

Yours faithfully,

Motanya D.O.

Baseline Architects Ltd

Cc

Cabinet Secretary-Ministry of Health

Principal Secretary-Ministry of Health

Clerk of National Assembly (Attn: Chair-Health Committee) ✓

Project Manager