

TC ABSTRACT

I. Basic project data

▪ Country/Region:	Mexico
▪ TC Name:	TC: <i>Clínicas del Azúcar</i> – Affordable Diabetes Health Care Services for the BOP
▪ TC Number:	ME-T1263
▪ Team Leader/Members:	Johnny Jiron (OMJ/OMJ), team leader; Sergio Juarez (OMJ/OMJ); Mario Torres (OMJ/OMJ), under the supervision of Luiz Ros (OMJ/OMJ)
▪ Indicate if: Operational Support, Client Support, or R&D.	Client Support
▪ Date of TC Abstract:	April 2014
▪ Beneficiary:	Diabetic patients
▪ Executing Agency and contact name:	<i>Clínicas del Azúcar S.A.P.I de C.V.</i> Javier Lozano – CEO +52 (81) 84480057 Ext 1102 jlozano@clnicasdelazucar.com www.clinicasdelazucar.com
▪ IDB Funding Requested:	\$250,000
▪ Local counterpart funding, if any:	\$125,000
▪ Disbursement period:	1 year
▪ Required start date:	May 2014
▪ Types of consultants:	TBD
▪ Prepared by Unit:	OMJ
▪ Unit of Disbursement Responsibility:	OMJ
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	Social policy for equity and productivity (Sector priority: Health)

II. Objective and Justification

- 2.1 The goal of the Project is to improve access to affordable diabetic care services for Base of the Pyramid (BOP) individuals in Mexico. By supporting the operational capacity and institutional strengthening of *Clínicas del Azúcar* (“CA”), this TC will provide needed funding to boost scale of operations and shorten the company’s path to investment readiness, including a loan from the IDB’s Opportunities for the Majority Financing Facility to scale its operations even further.
- 2.2 In Mexico diabetes and its associated complications are the second cause of death, with an incidence of 8.7 million people in 2013, representing the sixth country with most cases of diabetes in the world¹. Diabetes, when untreated or improperly managed, can lead to heart disease, stroke, amputations, blindness, kidney failure and even depression and suicide.
- 2.3 Launched in 2011, CA offers high quality and cost-effective health care to treat and prevent diabetes through a first-of-its-kind and highly disruptive health business model. Using a process reengineering, CA designed a low-cost “one-stop-shop” service for its patients. CA’s clinics provide an integrated medical package involving consultations with highly trained endocrinologists, nutritionists, psychologists and diabetes educators, along with lab tests and diagnosis (eye, foot and kidney). CA has developed low-cost screening procedures and proprietary software to customize patient treatments and significantly reduce the cost of it. The patients pay an annual-fixed fee or membership of US\$250 to have access to consultations for

¹ [Atlas de la DIABETES](#), Federación Internacional de Diabetes, 2013.

one year, reducing annual treatment costs by 70%. CA has also forged alliances with financial institutions to provide financing for the membership fee.

- 2.4 Last year, CA conducted a market study to estimate the annual costs of treatment available to low-income diabetes patients including medical consultations (visit to endocrinologist, internist, physiologist and nutritionist) laboratory tests (hemoglobin glycosylated, lipid panel, comprehensive metabolic panel and microalbumin test) and specialized diagnosis (foot analysis, electrocardiogram, diabetic retinopathy, and blood pressure). According to the results of the study, the average annual cost for treatment currently available at private clinics amounts to approximately MXN\$10,900 (USD\$820), while CA annual treatment cost is MXN\$2,950 (USD\$220).
- 2.5 The proposed TC is consistent with the GCI-9 Regional Development Goals - Social Policy for equity and productivity, more specifically the Health Sector Priority Area. The CA project falls within the GCI-9 Sub-sector Priority Area Health System Strengthening. This TC also complements the Bank's country strategy for Mexico 2013-2018 (GN-2749), which supports the country in the Health priority sector, specifically it supports private sector to complement the delivery of specialized health services.

III. Description of activities and outputs

- **Component 1. Remodeling of two Diabetes Clinics and Pilot Testing.** Refurbishing and equipment of two new clinics. This component includes the following activities:
 - (i) **Market studies.** Understand the needs of target patients as well as prepare feasibility studies for potential locations. Expected Results (ER): Market research report and feasibility study completed by month 6;
 - (ii) **Clinics piloting.** Remodeling and pilot of two diabetes clinics. ER: two fully functional clinics in the city of Monterrey with the capacity to treat 1,500 patients annually, by month 9;
 - (iii) **Processes analysis.** Hire a franchise consultant to document/standardize processes and develop clinics operation manuals. ER: Manual and procedures documentation by month 6;
- **Component 2. Strengthening Back-office Capacity.** Strengthen CA's back-office capacity to enable it to manage a larger amount of patients. It includes the following activities:
 - (i) **Patient Management Software (PMS).** Strengthen the PMS, which will provide real-time data about patient's health performance and serve patients more efficiently. Also, it will allow CA to generate knowledge and provide stakeholders with valuable information, as well as other institutions around diabetes care. ER: (i) Develop the software in 5 months to be able to manage more than 500,000 patients; and (ii) generate a report with lessons learned for public policymakers or related stakeholders.
 - (ii) **ERP system.** Acquire an ERP system to operate a larger number of clinics and optimize resources. ER: Implement system and fully train personnel in the use of the ERP (Focus: Operations, Logistics, Accounting and Payroll) in 6 months.
 - (iii) **Financial Model.** Develop a financial model with 5 year projections, sensitivity analysis and funding needs to reach business objectives. ER: To be completed by December 2014; and
 - (iv) **Credit Structuring support.** Contract auditing firm to conduct an audit of CA financial statements and processes to ensure compliance with best practices in accounting. ER: (i) Compliance with NSG credit risk guidelines; and (ii) submit fully audited financial statements by 2015; and (iii) Participate in investor forums and prepare an investor booklet to help the company raise equity.
- **Component 3. Staff Training, Consultants & Knowledge Transfer.** Support CA's learning the best management practices. It includes the following activities:

- (i) **Diabetes Online University.** Design and develop an e-learning platform to train doctors, nurses, nutritionists and psychologists in specialized diabetes care. ER: Train 8 doctors, 16 nurses, 8 nutritionists and 4 psychologists in 2014;
- (ii) **Training in Best Management Practices.** Hire a Healthcare consultant to review best practices and provide training to clinical staff in best diabetes management practices. ER: Implementation of best practices and training of 15 sales people and 25 staff members about management and diabetes in 4 months; and
- (iii) **Knowledge Transfer.** Learn best business practices and establish partnerships for research and development of new technologies. ER: Visit three top diabetes clinics, potential clinics are Kaiser Permanente (USA), Joslin (USA) and Steno (Denmark)
- **Component 4. Marketing & Communications Strategy.** Help CA to build a strong brand and customer recognition. It includes the following activities:
 - (i) **Marketing.** Hire a marketing agency to develop a Public Relations (PR) and marketing strategy. ER: A PR and marketing plan to position CA as the top-of-mind clinic for diabetes care; and
 - (ii) **Social Media.** Leverage social media networks. ER: Implement social media campaign to increase by 100% the number of patients per clinic.
- **Component 5. Monitoring and Evaluation:** OMJ will be responsible for the monitoring and supervision of the project. The objective of such evaluation is to measure the results achieved and the overall performance of the project:
 - (i) **Evaluation.** Analysis of the results achieved. ER: An evaluation report by an external consultant to measure the achievement of the overall performance (components and activities) in accordance with the disbursement schedule and allocated budget.
 - (ii) **Monitoring:** CA will be responsible to report directly through OMJ's web-based portal operational and financial indicators on a quarterly basis, and will complete a detailed execution report on a semi-annual basis as well as reporting on activities prior to each disbursement, ensuring the adequate execution of the results-based disbursement plan.

IV. Budget

Indicative Budget ('000 U.S. Dollars)

Comp /Activity	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
C1. A1	Market studies	8	7	4%
C1. A2	Remodeling of 2 diabetes clinics	140	50	50%
C1. A3	Document/standardize processes	10	15	7%
C2. A1	Strengthen a Patient Mgmt. Software	25	10	9%
C2. A2	ERP system	5	0	1%
C2. A3	Financial model	5	5	3%
C2. A4	Audit of CA	10	0	3%
C3. A1	Develop an e-learning platform	10	5	4%
C3. A2	Training to staff in diabetes BMP	10	5	4%
C3. A3	Best business practices & partnerships	0	13	3%
C4. A1	Develop a PR and Marketing strategy	10	0	3%
C4. A2	Leverage from social media networks	0	15	4%
C5. A1	Evaluation of results achieved	17	0	5%
C5.A2	Monitoring	0	0	0%
TOTAL		250	125	100%

V. Executing agency and execution structure

- 5.1 *Clínicas del Azúcar* is the executing agency, and OMJ will be the Bank unit responsible for project supervision. CA was founded by Javier Lozano in 2011 as “*Clínicas de Azúcar*” a *Sociedad Anónima Promotora de Inversión de Capital Variable, S.A.P.I de C.V.* The objective of the company is to provide top quality health services for Base of the Pyramid individuals suffering from diabetes in Mexico.
- 5.2 Mr. Lozano assembled a talented team of engineers, nurses and specialists to ensure the success of this innovative business model. Since the launch of operations in January 2012, the company has attended 2,300 patient in 2 clinics located in Monterrey city. For 97% of the patients it was the first time they had access to specialized diabetes care. In terms of impact, CA has achieved an average reduction of 3.1% in blood sugar (HbA1C) and, prevented by early detection more than 900 diabetes-related complications (retinopathy, diabetic foot, kidney failure and depression), with economic savings of more than USD\$2MM.
- 5.3 In terms of profitability, the company expects to achieve positive EBITDA in 2015. In the next 5 years CA plans to open 50 more clinics to impact more than 100,000 patients, reduce 15,000 complications and save patients more than US\$70 million.
- 5.4 CA’s health system model has been recognized as one of the most innovative by the MIT Technology Review Magazine “the MIT Legatum Center,” Echoing Green, Ashoka, Endeavor and the Santa Clara University GSBI center. CA is also an active participant in the Global Health Track of the Clinton Global Initiative. Javier Lozano, CEO and founder of the company, holds a MA in Business Administration from the MIT Sloan School of Management and obtained a BS in Engineering Physics from the *Tecnológico de Monterrey*.

VI. Project Risks and issues

- 6.1 **Competition Risk:** existing and new entrants can compete with similar models. In order to mitigate this risk, CA is leveraging its first-mover advantage and leadership by investing a large amount of resources in technology, software development, processes improvements and building know-how about treatment and best practices.
- 6.2 **Ensure quality in health treatment:** potential errors in treatment can lead to medical malpractices. In order to mitigate this risk, CA focuses on non-surgical procedures and has recently hired a Chief Quality Officer, who will be responsible for safety and quality control of the procedures performed.
- 6.3 **Reaching investment readiness:** Reaching investment readiness is supported by positive cash flow. This risk relates to the company’s ability to achieve cash flow break-even on time (9 months). CA is seeking public-partnerships to gain access to patients currently under the government health insurance programs, also through a partnership with *Soriana* (Mexican retail corporation chain), which can enable CA to establish clinics in locations with both high visibility and visitor flow rates. Finally, this TC will provide needed funding to provide institutional strengthening to deal with a larger funding operation, as well as help the company increase its volume of patients and hence revenue.

VII. Environmental and Social Classification

- 7.1 Based on the available documents, this operation is classified as Category “C” according to IDB Policy OP-703-directive B.3, with little or no environmental and social impacts.