

IFC Global Conference – Achieving Growth
Investing in Private Healthcare in Emerging Markets

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Conference Summary Paper

Introduction

In the last few years, since IFC first entered the healthcare arena, the importance of the private sector's role in healthcare, as both a source of financing and as a provider, has evolved from uncertainty and suspicion to wide acceptance. While the private sector's full potentialities are still being developed, particularly its interface with the public sector, the legitimacy of its role is rarely questioned. Increasingly, governments throughout the world are turning to the private sector to help address issues of aging public hospitals and equipment, growing consumer expectations, and constrained public finances. In response, private entrepreneurs have stepped forward to invest in an array of health-related enterprises that augment, or in some cases even replace, government operated and financed health services. The IFC-sponsored conference, *Investing in Private Healthcare in Emerging Markets*, held in February 2005, provided an opportunity to examine the most challenging trends in the healthcare marketplace and how a few of IFC's innovative clients are addressing these challenges - their marketing tactics, financing schemes, and lessons learned.

Responding to Challenges

One of the most powerful and widespread pressures for change in healthcare, in both developed and developing countries, is growing consumer expectations – reflected most prominently in greater demand for quality health services. As pointed out by Alan Maynard, the quest for quality is not new, but performance measures are now more sophisticated and consumers and policy makers are more eager to use them for decision-making. And as emphasized by Andrew Corbett-Nolan and Maureen Potter, a provider who can demonstrate its commitment to quality service by adopting evidence-based care methodologies, or can acquire independent accreditation, will have a distinct marketing advantage. A case in point is the Acibadem Healthcare Group, an IFC client in Istanbul, which initiated an ambitious quality strategy about four years ago and recently became one of less than 60 hospitals outside the United States accredited by the Joint Commission International.

Converging financial pressures, combined with greater consumer empowerment, are also influencing changes in healthcare – stimulating new relationships between the public and private sectors. The United States is one of the few countries where the public health sector is growing, with Medicare now one of the largest government budget items. One result is mounting pressures for increased private contributions with higher deductibles and co-pay features. In the UK and Canada, long waits and deteriorating facilities and equipment have encouraged citizens to seek private sector alternatives and for employers

to offer supplemental health coverage. And in emerging markets, such as Russia and Bosnia, people have gone to the streets demanding that their governments provide better services for HIV/AIDS and hemodialysis. Constrained by lack of public financing, governments are seeking ways to draw on the strengths of the private sector – and sometimes crossing international borders to find the resources and expertise they need. In one bold example, the National Health Service in the UK has contracted with Netcare, a private healthcare organization based in South Africa, to provide a number of initiatives to reduce patient waiting lists – providing surgical procedures via mobile operating units and strategically placed clinics. And in China, Chindex International has opened hospitals in Beijing and Shanghai, targeting the underserved international community and the growing population of private-pay Chinese consumers. They are the first two foreign-invested and operated full-service hospitals in the country. And in Mexico, IFC is helping the government broker a hospital concession to private providers, with the hope of financing the winner.

A third factor influencing change in healthcare is globalization and the escalating reliance on medical information and technology. Modern communications have made the best medical practices, as well as the most advanced medical breakthroughs, available to almost anyone who cares to look – professionals and consumers alike. For example, WHO treatment protocols, pharmaceutical incompatibilities, and medical journals of all description are available on the Internet. And increasingly, technology transfer is two-way, with expertise and advanced technologies being introduced first in emerging markets. For example, proton treatment data generated in China is being used for research and training in the United States. And medical notes, dictated by a doctor in the US, are transmitted electronically to India where they are transcribed, then sent back to the US where they are on the patient’s chart the next day. Global communication poses a challenge. It tends to raise expectations to common international standards, but it also creates demand for the financial resources needed to modernize buildings and equipment and to train technical personnel. Fleury Laboratories, an IFC client in Brazil, with its growing system of diagnostic facilities and services, is a good example of how world-class technology can be made available to both well-to-do and poorer communities.

Successful Strategies and Tactics

Of the several IFC clients participating in the Conference, each had developed its own unique business strategy to address the needs of its particular market. Still, a number of common themes were apparent:

1. Optimize assets. All the successful projects built on their strengths, using their special resources and knowledge to grow their businesses. Chindex International, used its understanding of the Chinese marketplace and its good relationships with the Chinese government, based on years of experience selling equipment and supplies to Chinese hospitals and retail pharmacies, to launch two modern, well-equipped, full-service hospitals.

2. Respond to consumer demand. The India-based Apollo Hospital Group is particularly adept at analyzing economic trends, consumer spending patterns, and other demographic changes that can reveal marketing opportunities. In selected regions of India, Apollo has developed a “value-chain” with networks of integrated medical services which address a broad range of consumer health needs. So too, Fleury Laboratories in Brazil has been expanding aggressively and altering its service mix in response to consumer demand. It has added specialized consulting services in genetics and fertilization, for example, to address the needs of growing families.
3. Manage costs. Netcare, for example, has parlayed its cost-efficient experience in South Africa to provide surgical services in the UK at lower entry and operating costs than the NHS has been able to achieve on its own. Netcare’s use of mobile units is an innovative and inexpensive way to provide quality cataract surgery to England’s widely dispersed population.
4. Build and retain a skilled workforce. Recruiting and keeping skilled health workers is problematic worldwide, but especially in emerging markets which often are exporters of personnel. As Sandy Lutz recommended, a company needs to, “recruit unselfishly and retain selfishly,” attend to salaries and wages, link employee and patient satisfaction, focus on retaining and recycling older workers, reassign tasks for increased productivity, and introduce new technologies. Several IFC clients – Chindex, Acibadem, and Apollo – have noted how a modern and well-equipped work environment can help in attracting and retaining employees.
5. Collaborate with the public agenda. Public Private Partnership opportunities are growing dramatically – extensively in the UK and Canada, but also in developing countries. While most PPP opportunities are initiated by government, private-side initiatives will become more common as private entrepreneurs gain experience and confidence working in the public sector. And there will be more opportunities for cross-border PPPs, such as Netcare’s partnership with the NHS. And Chindex’s sensitivity to the workings of Chinese government give the company a valuable “old friend” advantage in doing business in that country.

Project Finance

While health expenditures continue to rise throughout the world, the dynamics of financing – for both capital and operating needs - are becoming increasingly complex. The traditional sources of operating revenues – out-of-pocket payments, insurance, government, and donors – are often in a dynamic mix, with no approach to be excluded or favored. Out-of-pocket payments have been, and remain, a significant source of revenue – even in countries that have been public-sector dominated. Private providers find patients are willing to pay user fees when they perceive services to be of higher quality or more accessible. In emerging markets, user fees are replacing shadow payments made to public providers. And in developed markets, such as the UK and Canada, user fees, co-pays, and deductibles are increasingly common. As noted by Alex Preker, as payers perceive a stronger link between payment and performance (value for

money), the incentives for insurance rise – in all its forms: community-based (micro), enterprise, and social insurance. But as insurance programs mature and premiums rise, the incentives for larger deductibles and co-pay also increase – shifting the burden back to consumers. Similarly, as government payments rise, there are strong incentives to decrease service or shift costs to consumers. Recent deliberations in the United States Congress on rising Medicare costs, and the aggressive efforts in the UK to engage the private sector, are two good examples. And in emerging markets, sophisticated private providers, such as the Apollo Group in India, devote considerable effort to identifying all potential revenue sources – out-of-pocket, insurance, government, and donors.

In emerging markets especially, the sources and approaches to capital financing are becoming more varied and complex - with sophisticated “structured” approaches being used to finance equity and debt. Private equity investors, such as the Global Environment Fund and the Latin Healthcare Fund, are aggressively seeking investment opportunities in developing Europe and Latin America and other emerging markets. Typically, equity investors examine the country, the health industry, and the company – looking for a fair price, a 20-30% return, and a clear exit strategy.

IFC will sometimes take an equity position in a project, but more often it serves as a lender and a catalyst for other investment sources. IFC’s target markets are clients without access to capital markets, those seeking longer-term debt financing, and those seeking local currency financing. IFC offers a variety of products – securitization, partial credit guarantees, risk sharing facilities, liquidity facilities and credit derivatives. Increasingly, IFC is providing partial guarantee structured loans with local-currency financing. Such structured loans can provide long-term local currency financing, enabling clients to hedge against volatile cross-border currency fluctuations and to gain access to new investors.

Lessons Learned, Conclusions, and Way Forward

Since the creation of its Health and Education Department in 1998, IFC has altered and adjusted its approach to the healthcare industry. As Guy Ellena noted, “It’s not just about hospitals any more.” While hospitals that specialize in what Sandy Lutz called, “high volume, high margin, high quality services (bones, brains, and hearts),” will continue to be part of IFC’s portfolio, other service-forms are not uncommon – such as outpatient services, diagnostic services, and mobile surgical units. It’s also not just about big projects. IFC has adjusted its loan limits downward to accommodate smaller projects that have significant market impact or the potential to grow. Further, it’s not just about loans. IFC has found the need to provide technical assistance to otherwise strong clients who do not have adequate experience in the healthcare industry. And finally, in the past IFC has been reluctant to consider private sector projects that depend on government financing. The emergence of Public/Private Partnerships has changed all that, opening up a whole new field of opportunity.

The Conference provided an opportunity for participants to learn from one another – both during the formal sessions and the informal breaks and meals. Participants encouraged

IFC to hold future conferences, possibly in other countries. It was also noted that, in retrospect, the conference program tried to cover too much. Future IFC programs should focus more narrowly, going into greater depth on fewer selected topics. And future programs should allow more time for informal networking – extending the time scheduled for receptions, meals, and breaks.

In conclusion, it is clear that healthcare investment opportunities in emerging markets are on the rise, far exceeding IFC's expectations when it entered the field a few short years ago. IFC will need to continue to adapt and grow to accommodate the size, diversity, and complexity of these opportunities. In addition, the emergence of PPPs has blurred the borders between the private and public markets – raising the possibility of greater collaboration between IFC and the more public sector focused World Bank.